

City of Ottawa

2008 Financial Statement Audit Results



Ernst & Young LLP
100 Queen Street, Suite 1600
Ottawa, Ontario K1P 1K1

Tel: +1 613 232 1511
Fax: +1 613 232 5324

www.ey.com

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

June 16, 2009

Dear Members of the Committee,

We are pleased to present the results of our audit of the financial statements of the City of Ottawa ('the City').

The audit is designed to express an opinion on the 2008 consolidated financial statements as of December 31, 2008. In accordance with professional standards, we obtained a sufficient understanding of internal control to plan the audit and to determine the nature, timing and extent of tests to be performed. However, we were not engaged to and we did not perform an audit of internal control over financial reporting. We continue to receive the full support and assistance of the City's personnel in conducting our audit.

At Ernst & Young, we are continually evaluating the quality of our professionals' work in order to deliver audit services of the highest quality that will meet or exceed your expectations. We encourage you to use our Assessment of Service Quality (ASQ) process to provide your input on our performance. The ASQ process is a critical tool in enabling us to continually monitor and improve the quality of our audit services to the City of Ottawa.

This report is intended solely for the information and use of the Committee, City Council and management, and is not intended to be and should not be used by anyone other than these specified parties. We disclaim any responsibility to any third party who may rely on it. Further, this report is a by-product of our audit of the 2008 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.

Very truly yours,

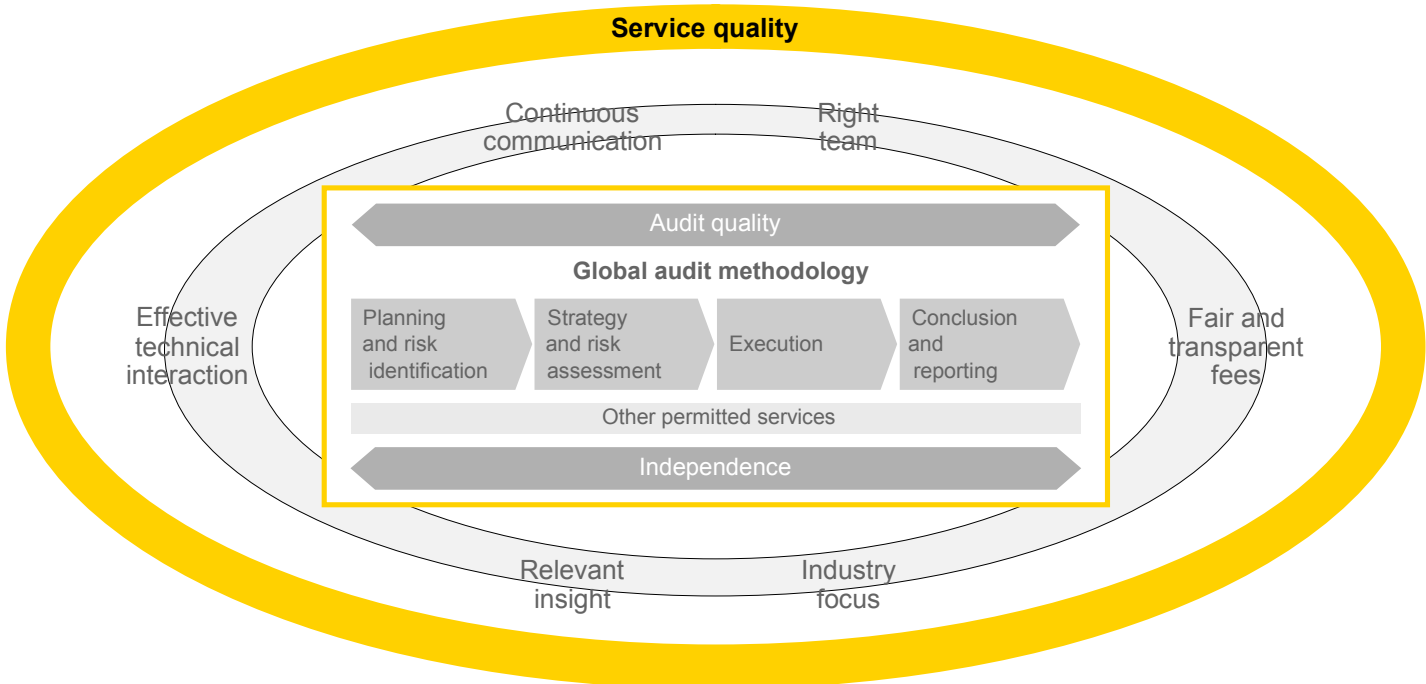
A handwritten signature in black ink that reads 'Ernst & Young LLP'.

Chartered Accountant
Licensed Public Accountants

Agenda

- ▶ Our client service commitment to City of Ottawa
- ▶ Deliverables
- ▶ Global audit methodology
 - Overview of the audit process
 - Materiality
 - Accounting and auditing developments
 - Required communications
 - Findings and observations—financial statement accounts and disclosures
 - Critical policies, estimates and areas of emphasis
 - Fraud considerations and the risk of management override
 - Summary of audit differences
 - Fair and transparent fees
- ▶ Appendix A—Independence
 - Independence considerations
 - Independence letter

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.

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 involves professional judgment and necessarily takes into account qualitative as well as quantitative considerations.
- ▶ Based on the 2008 budget, we performed our audit to a materiality level of \$23.2 million (\$22 million in 2007), which represents 1% of budgeted revenues. Actual results did not vary significantly from the budget, therefore no adjustments were required to the materiality level initially set up.

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 has incorporated 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 the 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 was undertaken by the Corporation of the City of Ottawa until a PSA handbook section is finalized.

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. We have summarized these communications as they apply to the City.

Required communications with audit committee

Area	Required communications 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 has been obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal control was insufficient to express an opinion as to the effectiveness or efficiency of the entity's controls.</p> <p>The auditors have expressed 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

Area	Required communications 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; 	<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 ▶ No other areas of concern have been brought to our attention ▶ Refer to our engagement letter

Required communications

Area	Comments
<p>Other information in documents containing audited financial statements</p> <p>Our financial statement audit opinion only relates to the financial statements and accompanying notes. However, we also review other information in the Annual Report such as Management’s Discussion and Analysis, and consider whether such information, or the manner of its presentation, is materially inconsistent with the audited financial statements. If we conclude that a material inconsistency exists, we determine whether the financial statements, our auditors’ report, or both, require revision.</p>	<p>When available, we will review the City’s Annual Report to validate the audited financial statements included in that document.</p>
<p>Major issues discussed with management in connection with initial or recurring retention</p> <p>We discuss with the Audit Committee or those charged with governance any major professional issues that were discussed (orally or in writing) with management in connection with our initial or recurring retention as the auditor, including, among other matters, any discussions regarding the application of accounting principles and auditing standards.</p>	<p>None</p>
<p>Non-trivial audit adjustments</p> <p>We provide the Audit Committee or those charged with governance 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>Refer “Summary of Audit Differences”</p>
<p>Unrecorded audit differences considered by management to be immaterial</p> <p>We inform the Audit Committee or those charged with governance about unrecorded 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>Refer to “Summary of Audit Differences” Section</p>

Required communications

Area	Comments
<p>Our judgments about the quality of the City's accounting principles</p> <p>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.</p>	<p>We believe the quality of accounting policies disclosed in the financial statements and applied in the financial reporting, including the consistency of their application, and the understandability and completeness of the financial statements complies with Canadian generally accepted accounting principles ("GAAP") and Public Sector Accounting.</p>
<p>Disagreements with management</p> <p>We discuss with the Audit Committee or those charged with governance any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the entity's financial statements or the auditor's report.</p>	<p>None.</p>
<p>Consultation with other accountants</p> <p>When we are aware that management has consulted with other accountants about auditing or accounting matters, we discuss with the Audit Committee or those charged with governance our views about significant matters that were the subject of such consultation.</p>	<p>None of which we are aware.</p>
<p>Serious difficulties encountered in dealing with management when performing the audit</p> <p>We inform the Audit Committee or those charged with governance of any significant difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>None.</p>
<p>Related party transactions</p> <p>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 Audit Committee.</p>	<p>All related party transactions known to us are disclosed in the financial statements.</p>

Required communications

Area	Comments
<p>The adoption of, or a change in an accounting principle</p> <p>We determine that the Audit Committee or those charged with governance is/are 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 2008, City was required to adopt accounting policies related to segmented reporting, resulting from newly applicable standards. The effect of adopting these standards did not materially affect the 2008 financial statements. Accordingly, we have not modified our opinion as to consistency.</p>
<p>Methods of accounting for significant unusual transactions and for controversial or emerging areas</p> <p>We determine that the Audit Committee or those charged with governance is/are 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>Sensitive accounting estimates and disclosures</p> <p>The preparation of the financial statements requires the use of accounting estimates. 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 Audit Committee or those charged with governance is/are informed about management's process for formulating particularly sensitive accounting estimates and about the basis for our conclusions regarding the reasonableness of those estimates.</p>	<p>The accounting estimates we considered as sensitive are those surrounding the valuation of the landfill obligation, contingencies, the provision for employee future benefits, property tax provision and property tax rebates. We have provided our views in the following section titled "Findings and Observations".</p>
<p>Material weaknesses in internal control</p> <p>We communicate all material weaknesses in internal control that may have been identified during the course of our audit.</p>	<p>No material weaknesses were identified.</p>

Required communications

Area	Comments
<p>Fraud and illegal acts</p> <p>We communicate to the Audit Committee or those charged with governance fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.</p> <p>In addition we discuss fraud involving employees who have significant roles in internal control, questions regarding the honesty and integrity of management, and matters that may cause future financial statements to be materially misstated as well as any misappropriations perpetrated by lower-level employees, based on our understanding with the Audit Committee regarding the nature and extent of communications with the committee about such matters.</p>	<p>We are not aware of any matters that require communication. Refer to the “Fraud considerations” section for more information about our procedures related to the risks of material misstatement due to fraud.</p>
<p>All material alternative accounting treatments discussed with management</p> <p>We discuss with the Audit 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:</p> <ul style="list-style-type: none"> ▶ Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected. ▶ The treatment preferred by us. 	<p>None.</p>
<p>Matters relating to component entities of the City</p> <p>When the financial statements of a City (primary entity) include financial information from financial statements of a component entity (a subsidiary, investee (other than a portfolio investment), or joint venture; or an entity whose financial information from financial statements is included with those of the primary entity), the auditor communicates with the Audit 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).</p>	<p>None of which we are aware.</p>

Required communications

Area	Comments
<p>Independence</p> <p>We communicate, at least annually, the following to the Audit Committee or those charged with governance:</p> <ul style="list-style-type: none"> ▶ Describe, in writing, all relationships between Ernst & Young and our associated entities and the City and its affiliates or persons in financial reporting oversight roles at the City that may reasonably be thought to bear on our independence; ▶ Discuss with the Audit Committee the potential effects of those relationships on independence; and ▶ Affirm, in writing, that we are independent in compliance with Rules of Professional Conduct / Code of Ethics of the provincial institutes. 	<p>Refer to Appendix A</p>
<p>Fees and related Canadian regulatory disclosures</p> <p>Under our professional standards, we are required to disclose to the Audit 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>Regulatory rules require companies to disclose all fees billed by the principal independent auditor and the Audit Committee's pre-approval policies and procedures. Aggregate fees billed are required to be disclosed in the following four categories for the two most recent years:</p> <ul style="list-style-type: none"> ▶ Audit fees ▶ Audit related fees ▶ Tax fees ▶ All other fees 	<p>During the period from January 1, 2008 through December 31, 2008, Ernst & Young charged \$510K for audit services including:</p> <ul style="list-style-type: none"> · Audit of the City of Ottawa · Audit of the Pineview Golf Course · Audit of the Sinking Fund · Audit of the City of Ottawa Superannuation Fund · Audit of the OC Transpo Pension and Benefit Trust · Audit of numerous public health programs, annual expenditure programs and business improvement areas. <p>These amounts do not include fees charged to Ottawa Community Housing Corporation or Hydro Ottawa during the period.</p>

2008 Findings and observations

Financial statement accounts and disclosures

<p>Significant Accounting Estimates – Property Tax Appeals</p>	<ul style="list-style-type: none"> ▶ Management has approximated potential outstanding liability related to property tax appeals as at December 31, 2008 to be \$6.2 million. This liability has not been accrued at year end even though it meets the criteria (likely and estimable), and as a result is recorded in the Summary of Audit Differences. ▶ This treatment is consistent with prior year as management has never recorded the potential liability related to property tax appeals at year end.
<p>Significant Accounting Estimates Investments impairment analysis</p>	<ul style="list-style-type: none"> ▶ Prolonged periods of investment market value decline represents a strong indicator that investments assets might be impaired. The standard definition of “prolonged periods” is 3 to 4 years of consecutive decline in value. ▶ During the audit of the equity investments held by the Endowments fund, Ernst & Young noted indicators of prolonged market value decline for several investments contained within the fund. ▶ City management has concluded that no indicators of impairment exist based on discussion with the external investment manager. Based on our research, certain investments have incurred significant losses, are operating in a high risk industry considering the current economic conditions, and have a fair values (i.e. market values) significantly lower than carrying values. Our analysis of these investments, using publically available information, shows that their market value has been declining in past 2-3 years and the target (exit) values for these investments are significantly lower than their market value. ▶ We have calculated the estimated amount of Impairment with difference between the cost and the target value and estimated an impairment of \$5 million, as currently reported in our Summary of Audit Differences as a judgmental difference of opinion.

2008 Findings and observations

Financial statement accounts and disclosures

Key issue/risk area	Summary of procedures and findings
Litigation and loss contingencies	<ul style="list-style-type: none"> ▶ PSAB Section 3300 establishes recognition and disclosure standards dealing with contingent liabilities in government summary financial statements. The Section requires: <ul style="list-style-type: none"> ▶ A government to accrue a contingent liability when the expected future confirming event is likely to occur; that an accrued contingent liability be derecognised when it is settled or otherwise extinguished or when the future confirming event is likely ▶ A government to disclose a contingent liability unless the occurrence of the future confirming event is likely ▶ We noted three instances of over accrual and one under accrual of legal claims which results in a net over accrual of legal expenses by \$3.75 million, as recorded in the summary of differences.

2008 Findings and observations

Financial statement accounts and disclosures

Key issue/risk area	Summary of procedures and findings
<p>Recorded Audit Differences</p> <p>Grant revenue</p>	<ul style="list-style-type: none"> ▶ The City received 3 grants totalling \$42.4 million from the Province of Ontario which are recorded as revenue in the City’s consolidated statements of financial position. Details of these grants are as follows: <ul style="list-style-type: none"> ▶ Grant of \$8,215 million was awarded for capital repairs related for Provincial Housing properties. ▶ Grant of \$7,000 million was awarded for installing smart cards and other automation projects for buses ▶ \$27,185 million for hybrid buses, fare collection systems and other specified purchases for buses <p>Section 3100 requires that “Externally restricted inflows should be recognized as a revenue in governments financial statements in the period in which the resources are used for the purpose or purposes specified. An externally restricted inflow received before this criterion has been met should be reported as a liability until the resources are used for the purpose or purposes specified.”</p> <ul style="list-style-type: none"> ▶ In 2008 \$10,455 million was used in accordance with the purposes specified, therefore the remaining unused portion of \$25,670 million must be recorded as liability. Management has adjusted this error as reported in our Summary of Audit Differences (recorded).

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 have conducted substantive procedures over the tax revenues. We assessed the accuracy of the balances.
Assets		
Cash and Short Term Investments	✓	Year end balances were confirmed and we substantively tested balances to verify that their actual value was not lower than their carrying value
Accrued Liabilities		
Employee Benefit Costs	✓	We reviewed the 2008 valuation methods and assumptions used by the actuaries. We concluded as to whether the method used was in compliance with Canadian Generally Accepted Accounting Principles as per Public Sector Handbook Section 3250 and the assumptions used are reasonable.
Property Tax Accruals	✓	We reviewed management's property tax appeals analysis to estimate the likely property tax appeal liability at year end.
Capital Lease Obligations	✓	We reviewed any new lease and/or public private partnership agreements and determined the appropriateness of the accounting for these transactions.
Other		
Pension accounting	✓	We reviewed the current pension obligation and pension asset for both pension plans and determined 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
<p>North-South Light Rail Transit</p>	<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 first included in the Notes to the 2007 consolidated financial statements. 	<ul style="list-style-type: none"> ▶ Per discussions with the City of Ottawa management, there has been no new developments on the light rail litigation. We confirmed the status of claim ask the City's legal council that the liability is not determinable hence the City has continued disclosure in the December 31, 2008 consolidated financial statements.
<p>Retirement Benefits</p>	<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 is in compliance with PS 3250 for any future actuarial gains and losses in 2008. ▶ In addition, management obtained 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

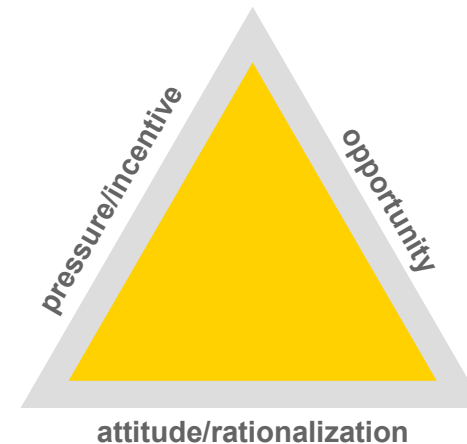
Area of emphasis	Summary	Ernst & Young comments
Solid Waste Landfill and Post-Closure Liability		
	<ul style="list-style-type: none"> ▶ PS 3270 requires that the City's consolidated financial statements recognize a liability for closure and post-closure care of its landfill sites based on usage of the 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 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 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)

Summary of audit differences

► During the course of our audit, we accumulate following audit differences:

	Overstatement (Understatement) of Net Revenues ('000)
Recorded Differences	
Restricted grant revenue	25,670
Under accrual of operating expenses	1,202
Legal settlement expenses	<u>3,898</u>
	30,770
Unrecorded Differences	
Over accrual of legal liability	(3,750)
Over statement of receivable (Statutory lieu payment)	734
Under accrual of vacation liability	(1,456)
Under accrual of employees future benefit liability	2,602
Under accrual of lease inducement revenue	(270)
Over accrual of PIL Revenue	4,000
Under accrual of WSIB expenses	<u>2,218</u>
Sub Total	4,078
Judgemental Audit Difference	
Impairment on investments	5,000
Allowance for Doubtful Accounts	(2,459)
Property tax assessment appeals provision	6,200
Surface Operations Inventory	<u>1,472</u>
Sub Total	14,291
Net effect of 2007 unadjusted difference – turnaround effect	<u>(15,159)</u>
Total Unrecorded	(869)

Summary of audit differences

Misclassifications identified in financial statements	
1. Understatement of property tax receivable for \$3,179 due to payables were recorded as part of accounts receivable	
2. Understatement of deferred revenue by \$854 related to funds received from Carleton Catholic Board for road construction recorded in accounts payable	
3. Understatement of accounts payables and operating expenses by \$2,328 due to rent expenses of FY09 recorded in current year	

Appendix A

Independence letter

June 16, 2009

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

Dear Members of the Committee,

We have been engaged to audit the financial statements of the City of Ottawa ('the City') for the year ended December 31, 2008.

Pursuant to Canadian generally accepted auditing standards, we communicate at least annually with you regarding all relationships between Ernst & Young and its related entities and the City and its related entities that, in our professional judgment, may reasonably be thought to bear on our independence. We have prepared the following comments to facilitate our discussion with you regarding independence matters.

We are not aware of any relationships between Ernst and Young and the City that, in our professional judgment, may reasonably be thought to bear on our independence, since June 17, 2008.

Canadian generally accepted auditing standards 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 City within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of date of this letter.

The estimate of fees charged in 2008 for audit, audit-related services and non-audit services of the City is presented in our 2008 audit fee summary section.

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.

Yours truly,


Chartered Accountant
Licensed Public Accountants

Ernst & Young

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 130,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve potential.

About Ernst & Young's Assurance Services

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.

For more information, please visit ey.com/ca.

ey.com/ca

© 2009 Ernst & Young LLP. All rights reserved.
A member of Ernst & Young Global Limited