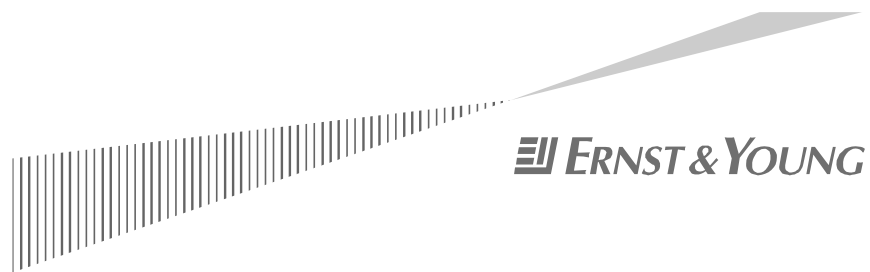


City of Ottawa

2010 Financial Statement Audit Results



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

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

www.ey.com

26 May 2011

Members of the Audit Sub-Committee
Corporation of the City of Ottawa

Dear Members of the Committee,

We are pleased to present the results of our audit of the consolidated financial statements of the City of Ottawa (the "City"). This report also includes the status of our audit.

Our audit was designed to express an opinion on the 2010 consolidated financial statements. We continue to receive the full support and assistance of the City's personnel in conducting our audit. Open and candid dialogue with you, as a Committee member, is a critical step in the audit process and in the overall corporate governance process, and we appreciate this opportunity to share the insights from our audit with you.

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

This report is intended solely for the information and use of the Committee, City Council and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We look forward to meeting with you to discuss the contents of this report and to answer any questions you may have about these or any other audit-related matters.

Very truly yours,

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

Chartered Accountant
Licensed Public Accountants

Table of contents

- ▶ 2010 Ernst & Young services
- ▶ 2010 audit results
 - ▶ Audit strategy considerations
 - ▶ Critical policies, estimates and areas of audit emphasis
- ▶ Fraud considerations and the risk of management override
- ▶ Summary of audit differences (SAD)
- ▶ Appendix A: Timing of required communications with the Committee and detailed summary of required communications
- ▶ Appendix B: Auditor independence
- ▶ Appendix C: Engagement letter
- ▶ Appendix D: New Canadian auditing standards: What they mean to your audit

2010 Ernst & Young services

	Services and deliverables	Status update
<p>Audit and audit-related services</p>	<ul style="list-style-type: none"> ▶ Express opinions on: <ul style="list-style-type: none"> ▶ The consolidated financial statements of the City of Ottawa for the year ended December 31, 2010. ▶ The financial statements of the OC Transpo Benefit Trust, the OC Transpo Benefit Plans, and the City of Ottawa Superannuation Fund. ▶ Issue a written consent for the use of our auditors' report in a continuous disclosure document, as required, and in accordance with the terms of our engagement letter. ▶ Issue a written communication to: <ul style="list-style-type: none"> ▶ Management (a management letter) that provides our recommendations regarding internal controls and opportunities for improvement or efficiency, based on observations made during the course of the audit. This letter will be provided to management after the audit results have been presented. ▶ The Audit Sub-Committee about independence matters in accordance with Canadian professional standards. 	<ul style="list-style-type: none"> ▶ 2010 audit procedures to be completed: <ul style="list-style-type: none"> ▶ Obtain a letter of representations from management as at the date the financial statements are approved by Council (anticipated to be June 8, 2011). ▶ Perform final procedures relating to our review of the City's consolidated financial statements, related footnotes and the annual report. ▶ Complete subsequent events review procedures up until June 8, 2011, the anticipated date of filing of the approval of the City's consolidated financial statements. ▶ Perform standard fraud and subsequent events inquiries with the Audit Sub-Committee.
<p>Other services</p>	<ul style="list-style-type: none"> ▶ Perform translation for the French consolidated financial statements and financial highlights included in the annual report to the City of Ottawa. 	<ul style="list-style-type: none"> ▶ Awaiting finalization of the City's consolidated financial statements.

2010 Audit results

Audit strategy considerations

Area	Ernst & Young comments
<p>New Canadian Auditing Standards</p> <p>Changes from previous Canadian generally accepted auditing standards include changes in the auditors report, changes in the dating of the audit report and subsequent events period, as well as more explicit guidelines surrounding the audit of related party transactions.</p>	<ul style="list-style-type: none"> ▶ The most significant impact of the new audit standards to the City will be the extension of the date of the auditors' report to the date the statements are approved by the City Council, which is anticipated to occur on June 8, 2011. ▶ Therefore, we will be required to extend our subsequent events review procedures to the date of the Council meeting on June 8, 2011. This will include review of bank statements, payments and receipts in the subsequent event period as well as additional standard inquiries.
<p>Entity-level controls</p> <p>Entity-level controls can exist within each of the following five components of internal control:</p> <ul style="list-style-type: none"> ▶ Control environment ▶ Risk assessment ▶ Monitoring ▶ Information and communication ▶ Control activities <p>We maximize the opportunity to identify entity-level controls important to our audit by considering those entity-level controls that exist within the City's "tone-at-the-top," anti-fraud programs and controls, the financial statement close process, centralized processing systems, and policies and procedures.</p>	<p>For purposes of our audit, we have concluded that entity-level controls for the year ended December 31, 2010 are effective.</p>

2010 Audit results

Audit strategy considerations

Area	Ernst & Young comments
<p>General approach to the audit</p> <p>Using our cumulative knowledge of the client’s business, including the results of audit procedures in prior years and the knowledge gained from the current year’s procedures that have been completed, we establish a preliminary strategy for placing reliance on controls related to the flows of transactions and/or significant processes.</p> <p>For purposes of the audit of the financial statements, our audit scope is developed after considering the inherent and control risks and the effectiveness of the City’s internal controls. A variety of factors are considered when establishing the audit scope including size, specific risks, the volumes and types of transactions processed, changes in the business environment, and other factors.</p> <p>We distinguish between the following strategies:</p> <ul style="list-style-type: none"> ▶ Identify and evaluate controls (<u>controls strategy</u>) ▶ Do not identify and evaluate controls (<u>substantive strategy</u>) 	<p>Our audit procedures are customized based on the City’s significant accounts, disclosures and classes of transactions, as well as our assessment of risk, including the risks of fraud.</p> <p>Significant accounts - All accounts of the City were determined to be significant based on our preliminary materiality determination, with the exception of prepaid expenses.</p> <p>Control testing - We have tested and relied upon controls identified for the accounts payable and expenses process to reduce the extent of substantive testing in these areas.</p> <p>We have also performed control testing over the SAP system’s IT general controls in order to gain further assurance over the City’s system-generated reports.</p> <p>Substantive testing - For the remaining significant accounts that have been identified as part of the planning process, we have taken a substantive approach to perform our audit as we believe that this approach resulted in a more efficient approach for these accounts based on their nature.</p>
<p>Materiality</p> <p>Our evaluation of areas of audit significance is made relative to “materiality.” An understanding of what is material in relation to the overall results of the City is critical to the performance of an effective and efficient audit. An item is considered material if it is probable that the impact of the omission or misstatement would influence the decisions of a reasonable reader of the financial statements.</p> <p>Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations.</p>	<p>At the conclusion of the audit, we formulate our opinion on the consolidated financial statements of the City as to their fair presentation, in all material respects, in accordance with Canadian generally accepted accounting principles.</p> <p>Our estimation of planning materiality involves professional judgment and necessarily takes into account qualitative as well as quantitative considerations.</p> <p>We have performed our audit to a materiality level of \$25.2 million (\$24.2 million in 2009), which represents approximately 1% of budgeted expenditures, consistent with prior years.</p>

2010 Audit results

Audit strategy considerations

Area	Ernst & Young comments
Transaction level controls	<p>As communicated during our audit planning, Ernst & Young has leveraged the use of internal controls where they have been determined to be designed and operating effectively throughout the year for purposes of the financial statement audit.</p> <p>The execution of our tests of controls resulted in reliance over the following significant processes for fiscal 2010:</p> <ul style="list-style-type: none"> ▶ Accounts payable ▶ Expenses, excluding payroll expenses
IT general controls - SAP	<p>In accordance with our planning strategy for fiscal 2010, we have reviewed, tested, and relied upon IT general controls over the SAP application. Our reliance on these IT general controls provides us with additional assurance over system-generated information and reporting.</p>
Use of specialists	<p>During the course of our audit, we relied upon the work of specialists engaged by the City in two areas:</p> <ul style="list-style-type: none"> ▶ To estimate the liabilities associated with the costs to close and maintain the City's solid waste landfill sites, in accordance with PS 3270, <i>Solid Waste Closure and Post-Closure Liability</i>. ▶ To estimate the liabilities associated with certain future benefits provided by the City to its employees, including retirement and post-employment benefits, and benefits related to pension agreements, in accordance with PS 3250 and 3255. <p>The specialists engaged by the City and relied upon by Ernst & Young include:</p> <ul style="list-style-type: none"> ▶ Golder Associates; ▶ Dillon Consulting; ▶ Towers Watson; and ▶ Mercer. <p>We have performed the necessary procedures to rely upon the work of these specialists for audit purposes, including confirming the scope and nature of the work performed directly with each specialist.</p>

2010 Audit results

Critical policies, estimates and areas of audit emphasis

Area of emphasis / critical accounting policy	Ernst & Young comments on quality and application of accounting policy, significant estimates, financial statement disclosures and related matters
Tangible capital assets (PS 3150)	<p>We have audited the City's December 31, 2010 tangible capital assets balances and the related fiscal 2010 activity, consisting of additions, disposals, and amortization. We have also reviewed and assessed the City's process for accumulating and reporting its tangible capital assets in accordance with PS 3150; this process includes the determination of the nature of the asset to be recorded, validating the existence and completeness of the asset, and valuing the asset at a reasonable cost.</p> <p>Our audit work over tangible capital assets focused on the key financial statement assertions related to tangible capital assets, namely:</p> <ul style="list-style-type: none"> ▶ Existence: We have performed substantive audit procedures to verify that tangible capital assets recorded by the City are capital in nature and are owned by the City, and have been recorded in the appropriate asset category. ▶ Completeness: On a sample basis, we have substantively audited expenditures that were not capitalized in order to verify that all assets that are capital in nature have been recorded appropriately by the City. ▶ Valuation: We have substantively audited the amounts capitalized by the City to supporting documentation to verify the accuracy of the assigned values for recorded tangible capital assets, and have audited the depreciation recorded by the City in 2010 for proper measurement based on the estimated useful lives of the assets. ▶ Presentation and disclosure: We have audited and assessed the City's presentation and disclosure of the tangible capital asset balance in accordance with PS 1200 and PS 3150. <p>Based on the procedures performed, the City's tangible capital assets balances recorded at December 31, 2010, and the related depreciation expense recorded in 2010, appear reasonable.</p>

2010 Audit results

Critical policies, estimates and areas of audit emphasis

Area of emphasis/critical accounting policy	Ernst & Young comments on quality and application of accounting policy, significant estimates, financial statement disclosures and related matters
Pension accounting	<p>OC Transpo Employee’s Pension Plan</p> <ul style="list-style-type: none"> ▶ In 2010, the OC Transpo plan was in an estimated asset position of \$1.8M as per the actuarial valuation provided. This amount has been recorded by the City based on the actuarial valuation prepared at December 31, 2010, and appropriately disclosed in the notes to the consolidated financial statements. <p>City of Ottawa Superannuation Fund (“COSF”)</p> <ul style="list-style-type: none"> ▶ In 2010, the COSF plan was in an estimated liability position of \$23.4M as per the actuarial valuation provided. This amount has been recorded by the City based on the actuarial valuation prepared at December 31, 2010 and appropriately disclosed in the notes to the consolidated financial statements. ▶ Based on our procedures performed, including placing reliance on the work of the specialists engaged by the City, we find the City’s accounting and presentation/disclosure of pension-related amounts to be reasonable.
COSF Indexation	<ul style="list-style-type: none"> ▶ In 2005, the City Council agreed to provide COSF plan members with additional indexation of their benefits, subject to the solvency of the plan. Indexation increases incrementally over a 5-year period, from the original 55% in 2005 to 100% in 2010. ▶ The City has not recorded a liability associated with the additional indexation because: 1) the discretionary nature of the payout; and 2) the range of potential settlement (\$nil to \$9.3M). As a result, we have identified an audit difference related to the under accrual of the indexation liability in the amount of \$9.3M, assuming indexation up to January 1, 2011. This difference has been reflected on our summary of audit differences.

2010 Audit results

Critical policies, estimates and areas of audit emphasis

Area of emphasis / critical accounting policy	Ernst & Young comments on quality and application of accounting policy, significant estimates, financial statement disclosures and related matters
Property tax appeals	<ul style="list-style-type: none"> ▶ Management has estimated the liability related to property tax appeals as at December 31, 2010 to be approximately \$7.5M. This liability has not been recorded at year-end and has, therefore, been recorded on the summary of audit differences as a judgmental difference. ▶ This treatment is consistent with prior years, as the City has not previously recorded a liability related to ongoing property tax appeals at year-end. The net impact of these differences in the current year consolidated financial statements is not material.

Fraud considerations and the risk of management override

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or by fraud (CAS 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*).

Our audit procedures encompassed the requirements of CAS 240: brainstorming, gathering information to facilitate the identification of and response to fraud risks and performing certain procedures to address the risk of management override, including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions.

Identified fraud risks	Controls related to fraud risk	Summary of tests of controls and substantive procedures and related findings
<p>Manipulation of results to meet budget, due to the political environment. Specifically, business unit performance is assessed by comparing actual expenditures to budget. Given the budgetary structure of the organization, departments have an incentive to purchase and/or accrue expenditures in order to utilize existing budgets and prevent a potential decrease in their budget in the next year</p>	<p>A comparison of amounts to budget is performed by management.</p> <p>Management reviews assumptions supporting significant accrued liabilities.</p> <p>Written closing procedures are followed to identify and estimate accruals.</p>	<p>We have walked through and documented our understanding of flow of transactions in the accounts payable and accruals process.</p> <p>We have substantively tested all the significant accruals recorded at year end and performed variance analysis on the expenditures over the prior year.</p> <p>We have concluded that the accruals recorded in 2010 appear reasonable.</p>

Summary of audit differences (SAD)

During the course of our audit, we accumulate differences between amounts recorded by the City and amounts that we believe are required to be recorded under generally accepted accounting principles. The following is a summary of those misstatements we have identified through the date of this report that have not been corrected by the City.

Unrecorded differences may become material because of the risk of additional undetected differences or their impact to subsequent interim or annual periods. As a result, we encourage the recording of all audit differences.

Factual misstatements	Error results in an overstatement / (understatement) of annual surplus (\$'000's)
Overstatement of legal liabilities where outcome of claim is unknown	\$(2,406)
Overstatement of deferred revenues related to lease inducements	\$(196)
Judgmental misstatements	
Understatement of the property tax assessment appeals provision	\$7,500
Understatement of COSF indexation liability	\$9,300
Sub-total	\$14,198
Turn-around effect of prior year uncorrected differences	
Property tax assessment appeals provision	\$(6,700)
COSF indexation liability	\$(10,400)
Cumulative effect of unrecorded misstatements, after turn-around effect	\$(2,902)

Appendix A

**Timing of required communications with the Committee and
detailed summary of required communications**

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Our responsibility under Canadian generally accepted auditing standards, including discussion of the type of opinion we are issuing		X
Overview of planned scope and timing		X
Other information in documents containing audited financial statements		X
Major issues discussed with management in connection with initial or recurring retention	X	
Significant audit adjustments		X
Uncorrected misstatements considered by management to be immaterial and significant disclosure deficiencies		X
Our judgments about the quality of the City'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 policy	X	
Methods of accounting for significant unusual transactions and for controversial or emerging areas	X	
Sensitive accounting estimates		X
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Critical accounting policies and practices		X
All material alternative accounting treatments discussed with management		X
Other material written communications with management		X
Communication of independence matters		X
Other findings or issues regarding the oversight of the financial reporting process	X	
Additional information included in management's report on internal control	X	
Subsequent events		X
Related party transactions		X
Matters related to component entities of the City		X

Required communications

Area	Comments
<p>Auditor's responsibilities under Canadian generally accepted auditing standards</p> <p>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.</p>	<p>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, 2010.</p>
<p>Overview of planned scope and timing</p> <p>We discuss with those charged with governance an overview of the planned audit scope and timing. These discussions are intended to assist those charged with governance in: better understanding the consequences of the auditor's work for their oversight activities; discussing with the auditors issues of risk and materiality; and, identifying any areas for which they may request the auditor to undertake additional procedures. Additional matters we may discuss include:</p> <ul style="list-style-type: none"> ▶ How we propose to address the significant risk of material misstatement, whether due to fraud or error. ▶ The concept of materiality in planning and executing the audit, focusing on the factors considered rather than on specific thresholds or amounts. ▶ Where the entity has an internal audit function, the extent to which we will use the work of internal audit, and how we and the internal auditors can best work together. 	<p>Communicated during the audit planning meeting held with the Audit Sub-Committee on November 5, 2010. We have provided further comments above under the "audit strategy considerations" section.</p>

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 documents such as the Annual Report and Management's Discussion and Analysis of Financial Condition and Results of Operations, and we 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 auditor's report, or both, require revision.</p>	<p>When it is available, we will review the City's annual report.</p>
<p>Major issues discussed with management in connection with initial or recurring retention</p> <p>We discuss with the Audit Sub-Committee 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>Significant audit adjustments</p> <p>We provide the Audit Sub-Committee with information about adjustments arising from the audit (whether corrected 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>There were no material corrected audit adjustments related to the 2010 audit.</p>

Required communications

Area	Comments
<p>Uncorrected misstatements considered by management to be immaterial</p> <p>We inform the Audit Sub-Committee about uncorrected misstatements 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 the "Summary of audit differences" section.</p>
<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>It is our opinion that the accounting principles selected by management are reasonable, consistent, and provide reliable and relevant accounting information.</p> <p>We believe the quality of accounting policies disclosed in the financial statements and applied in the City's financial reporting, including the consistency of their application and the understandability and completeness of the consolidated financial statements, complies with Canadian generally accepted accounting principles and Public Sector Accounting Board (PASB) principles.</p> <p>We have provided further views in the section titled, "Critical policies, estimates and areas of audit emphasis".</p>
<p>Disagreements with management</p> <p>We discuss with the Audit Sub-Committee any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the City's financial statements or the auditor's reports.</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 Sub-Committee our views about significant matters that were the subject of such consultation.</p>	<p>None of which we are aware.</p>

Required communications

Area	Comments
<p>Serious difficulties encountered in dealing with management when performing the audit</p> <p>We inform the Audit Sub-Committee of any serious difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>None.</p>
<p>The adoption of, or a change in, an accounting policy</p> <p>We determine that the Audit Sub-Committee is informed about the initial selection of, and any changes in, significant accounting policies 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>None.</p>
<p>Methods of accounting for significant unusual transactions and for controversial or emerging areas</p> <p>We determine that the Audit Sub-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>

Required communications

Area	Comments
<p>Sensitive accounting estimates</p> <p>The preparation of the financial statements requires the use of accounting estimates. Certain estimates 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 Sub-Committee is 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 to be sensitive are those surrounding the valuation of the tangible capital assets, the provision for employee future benefits, and the property tax provision.</p> <p>We have provided our views in the section titled, “Critical policies, estimates and areas of audit emphasis”.</p>
<p>Fraud and non-compliance with laws and regulations that cause a material misstatement of the financial statements</p> <p>We communicate to the Audit Sub-Committee fraud and acts of non-compliance legal acts (other than when the matters are clearly inconsequential) and that cause a material misstatement of the financial statements.</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>

Required communications

Area	Comments
<p>Critical accounting policies and practices</p> <p>We communicate all critical accounting policies and practices used by the City in preparing the financial statements and our assessment of the disclosure of such policies.</p>	<p>We have provided our views in the section titled, "Critical policies, estimates and areas of audit emphasis."</p>
<p>All material alternative accounting treatments discussed with management</p> <p>We discuss with the Audit Sub-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>Where acceptable alternative accounting policies exist, the communication may include identification of the financial statement items that are affected by the choice of significant accounting policies as well as information on accounting policies used by similar entities.</p>	<p>None.</p>

Required communications

Area	Comments
<p>Other material written communications with, and representations sought from management</p> <p>We determine that the Audit Sub-Committee has received copies of all material written communications with management. CAS 260 requires that the auditor provide those charged with governance copies of written representations requested from management, including those related to uncorrected errors.</p>	<p>Our engagement letter, independence letter and summary of unrecorded audit differences are included in this report.</p> <p>We will also provide you with copies of the management representation letter related to the year end audit and, as appropriate, our management letter.</p>
<p>Communication of independence matters</p> <p>We communicate, at least annually, the following to the Audit Sub-Committee:</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 Sub-Committee the potential effects of those relationships on independence and ▶ Affirm, in writing, that we are independent with respect to the City within the meaning of Canadian professional standards. 	<p>Please refer to "Appendix B - Independence" section.</p>

Required communications

Area	Comments
<p>Other findings or issues regarding the oversight of the financial reporting process</p> <p>We communicate other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to the Audit Sub-Committee regarding their oversight of the financial reporting process.</p>	<p>There are no other findings or issues arising from the audit that are, in our judgment, significant and relevant to the Audit Sub-Committee regarding the oversight of the financial reporting process.</p>
<p>Subsequent events</p> <p>We inquire of management and, where appropriate, those charged with governance as to whether any subsequent events have occurred which might affect the financial statements.</p>	<p>No material subsequent events were noted.</p>
<p>Related party transactions</p> <p>The auditor shall communicate with those charged with governance significant matters arising during the audit in connection with the entity's related parties.</p>	<p>None of which we are aware.</p>

Required communications

Area	Comments
<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 to those charged with governance of the group matters brought to the attention of the group engagement team by component auditors that the group engagement team judges to be significant to the responsibilities of those charged with governance of the group. This includes matters such as:</p> <ul style="list-style-type: none"> ▶ Instances where the group engagement team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work. ▶ Limitations on the group audit, for example, where the group engagement team's access to information may have been restricted. ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	<p>No such matters were noted in relation to our audits of component entities of the City.</p>

Appendix B

Auditor independence



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

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

www.ey.com

26 May 2011

Independence letter

Members of the Audit Sub-Committee
Corporation of the City of Ottawa

Dear Members of the Committee,

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

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 may reasonably be thought to bear on our independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since June 15, 2010, the date of our last letter.

We are not aware of any relationships between Ernst & Young and the City that, in our professional judgment, may reasonably be thought to bear on our independence since June 15, 2010, the date of our last letter.

Canadian generally accepted auditing standards require that we confirm our independence to the Audit Sub-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 June 8, 2011.

We look forward to discussing these matters with you at our upcoming meeting.

This report is intended solely for the information and use of the Audit Sub-Committee, management, and others within the City and should not be used for any other purposes.

Yours truly,

Ernst & Young LLP
Chartered Accountant
Licensed Public Accountants

Appendix C

Engagement letter

Appendix D

**New Canadian auditing standards:
What they mean to your audit**

Canadian auditing standards

Effective for audits of financial statements for periods ending on or after 14 December 2010, there will be a new suite of 36 Canadian Auditing Standards (CASs) that reflect the requirements of the International Standards on Auditing (ISA). The revised standards will be applicable for the 2011 audit.

► The following table highlights the areas with a significant expected impact.

Standard	Summary of requirements	Expected impact to audit
Audit report (CAS 700)	The audit report is more explicit regarding the responsibilities of management and the auditor.	No significant impact expected.
Subsequent events and dating of the auditor's report (CAS 560/700)	Revised standards state the audit report should be dated when the auditor has obtained sufficient appropriate audit evidence and the former concept that the audit report should be dated on the date of "substantial completion" no longer exists. Auditors' reports will, in many cases, be dated later than under previous Canadian GAAS.	Subsequent events procedures will need to be extended to the later audit report date which will increase the extent of required subsequent event audit procedures. Management representations and legal confirmation of litigations will be required up to the later audit report date, which is expected to be the date of approval of the financial statements in final form from Council.
Related parties and related party transactions (RPT's) (CAS 550)	CAS 550 is consistent with the previous requirements, but is much more explicit and prescriptive in what the auditor must do with respect to RPT's.	Additional efforts, will be required to assess all controls in place over related party transactions. Those charged with governance may be required to provide representations in certain circumstances (e.g. when they have approved specific related party transactions that are material or involved management).

Canadian auditing standards

Standard	Summary of requirements	Expected impact to audit
Management estimates (CAS 540)	Provides more requirements and application material than previous Canadian GAAS. It focuses the auditor's work on estimates that have a risk of material misstatement and, in particular, those that have high risk of estimation uncertainty.	Requirements to review the outcome of accounting estimates in prior periods to evaluate management's estimation abilities and determine if there is any bias (e.g. Selection or construction of significant assumptions that yield a point estimate favourable for management objectives).

Ernst & Young's Global Audit Methodology has traditionally aligned to the ISA and irrespective of those new changes to Canadian auditing standards, we do not expect the overall audit effort to substantially change.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 141,000 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 their potential.

For more information, please visit ey.com/ca

ey.com/ca

© 2011 Ernst & Young LLP. All rights reserved.
A member firm of Ernst & Young Global Limited.