



City of Ottawa

2007 Financial Statement Audit Plan

October 1, 2007

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

We are pleased to discuss our audit approach for the City of Ottawa (“the City”). This report outlines the scope of our services, the team of Ernst & Young professionals that will serve you, and what we see as the key considerations affecting the 2007 audit.

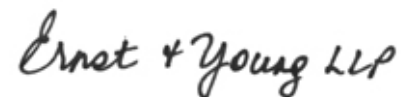
We are currently completing the planning phase of our audit of the financial statements of the City. Our current year plan has been prepared based on our understanding of the City’s business and industry. It is designed to be responsive to the unique needs of the City, to maximize audit effectiveness, and to deliver the high quality you expect.

Our audit is designed to express an opinion on the 2007 financial statements. We will consider the City’s current and emerging business risks, perform an assessment of risks that could materially affect the financial statements, and align our audit procedures accordingly. In accordance with professional standards, we will obtain 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 are not performing an audit of internal control over financial reporting.

The City and Ernst & Young share a commitment to quality. Our job demands a thorough understanding of the City, its operations, and emerging issues in order to mitigate risk. Our commitment to quality is and will continue to be reflected in every aspect of our work.

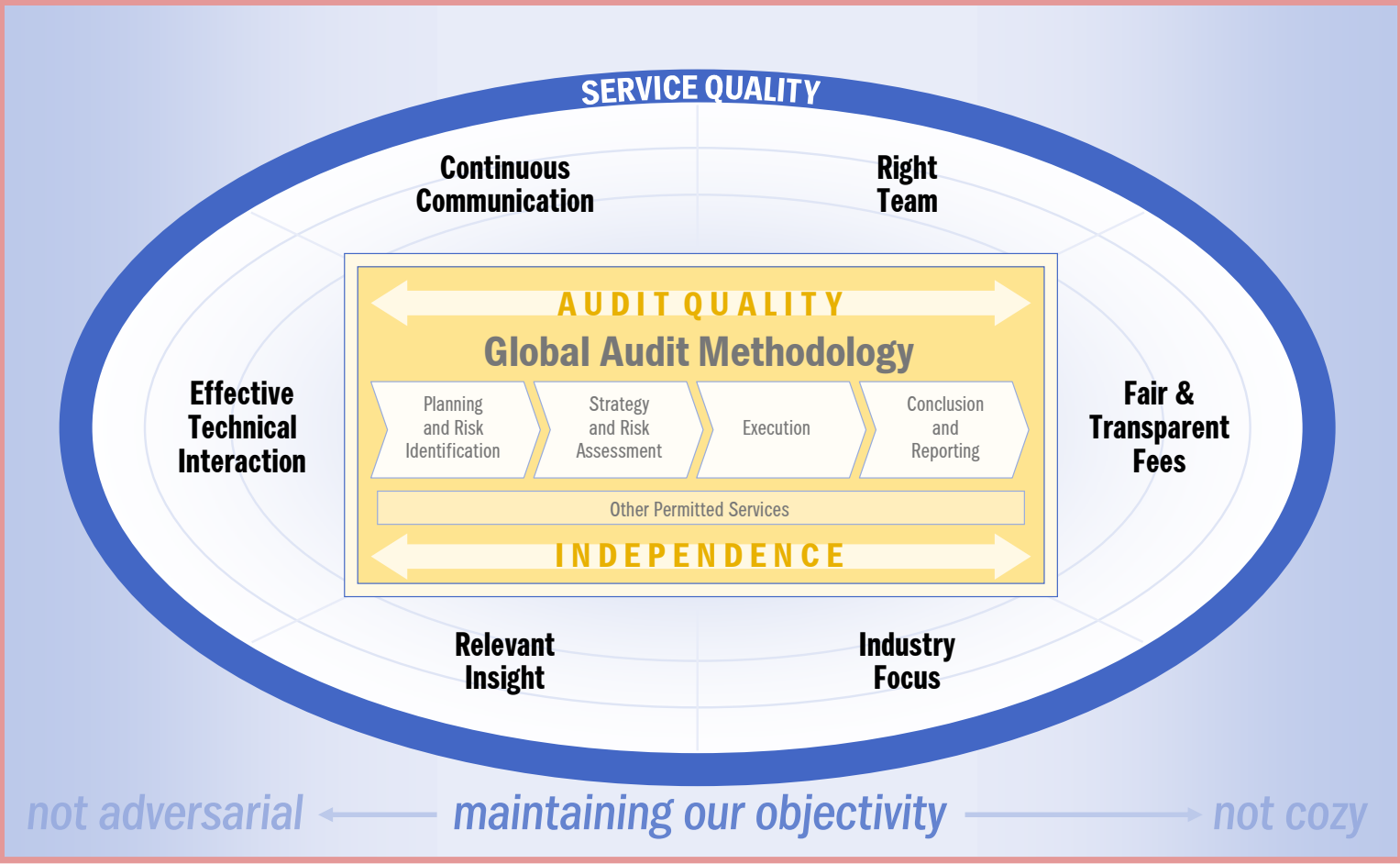
We appreciate this opportunity to meet with you. If you have any questions or comments, please contact us.

Very truly yours,



Chartered Accountants
Licensed Public Accountants

Our Client Service Commitment to the City of Ottawa



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 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 Committee. Our overall service commitment to the City is depicted above and is aligned with our Ernst & Young Assurance Service Delivery Approach.

Required Communications with the Corporate Services and Economic Development Committee

- CICA Handbook Section 5751 and other professional standards require the auditor to communicate certain matters to the Corporate Services and Economic Development Committee that may assist in overseeing management's financial reporting and disclosure process. The following pages presents the requirements and the timing of these communications. This communication plan will facilitate open and frequent communications with the Corporate Services and Economic Development 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 Committee

Required Communications	
Area	Comments
<p>Audit and Non-Audit Services Provided by the Auditor The auditor communicates with the Committee the audit and non-audit services the auditor is providing to the entity and its related entities.</p>	<p>Refer to the "Deliverables" section.</p>
<p>Auditors' Responsibilities under Generally Accepted Auditing Standards (GAAS)</p>	<p>Management is responsible for the preparation of the 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 financial statements based on an audit thereof.</p> <p>An audit is performed to obtain reasonable but not absolute assurance as to whether the 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 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 financial statements may contain misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole; • examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; • assessing the accounting principles used and their application; and • assessing the significant estimates made by management. <p>The auditor will express an opinion as to whether the 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 Committee

Required Communications	
Area	Comments
<p>Our Overall Audit Strategy The auditor communicates with the Committee aspects of the overall audit strategy:</p> <ul style="list-style-type: none"> the general approach to the audit; areas of the financial statements identified by the auditor, management or the 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; 	<p>Refer to the "Overview of the Audit Process" section.</p> <p>Refer to the "Business & Industry Risk Considerations" section and the "Critical Policies, Estimates & Areas of Emphasis" section.</p> <p>Refer to the "Materiality" section.</p> <p>For purposes of our audit of the 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.</p> <p>Refer to the "Critical Policies, Estimates & Areas of Emphasis" section.</p> <p>Refer to the "Accounting and Auditing Developments" section.</p>

Required Communications with Committee

Required Communications	
Area	Comments
<p>Our Overall Audit Strategy [Cont'd]</p> <ul style="list-style-type: none"> • 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; • planned reliance on other auditors, how the expectations will be communicated to the other auditors and how their findings will be communicated to the Committee; • use of and co-ordination with the work of the internal audit department; • use of specialists; and • the timing of the audit. 	<p>None were brought to our attention as of the date of this memorandum.</p> <p>Refer to our engagement letter.</p> <p>This item is not applicable.</p> <p>This item is not applicable.</p> <p>EY relies on actuaries for pension accounting. Pension assets and liabilities are derived from actuarial results. EY follows guidance within PS handbook 3250.</p> <p>Our 2007 interim period will commence November 26th, 2007. Our year end audit will commence March 3rd, 2008.</p>

Deliverables

Audit Deliverables	
Reports	<ul style="list-style-type: none"> • Express an opinion on the consolidated financial statements of the City. • Express opinions and complete specified procedures on separate statements for certain City divisions in accordance with local/municipal requirements. • Express opinions on annual financial statements of OC Transpo Benefit Trust and OC Transpo Benefit Benefit Plans.
Internal Control Communications	<ul style="list-style-type: none"> • Issue a written communication to management and the Committee describing material weaknesses in internal control 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

Global Audit Methodology

Overview of the Audit Process



Important Planning Matters for Committee Consideration

- Entity-Level Controls
- IT Environment
- Business and Industry Risk Considerations
- Accounting & Auditing Developments
- Critical Policies, Estimates & Areas of Emphasis
- Using the Work of Others
- Fraud Considerations and the Risk of Management Override

Materiality

- At the conclusion of the audit, we formulate our opinion on the 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 2007 budget, we estimate the materiality for the audit of the 2007 financial statements to be \$22.0M (\$21.1M in 2006), which represents 1% of budgeted revenues. The 2007 preliminary materiality level will be reviewed on an ongoing basis throughout our 2007 audit. Should actual results vary significantly from budget, the materiality level may be adjusted in order to recognize this change in circumstances.

Accounting & Auditing Developments

Accounting & Auditing Developments	Summary	Effect on the Company
<p>PS 2700 Segment Disclosures</p>	<ul style="list-style-type: none"> In January 2006, PSAB approved this new Handbook Section that prescribes disclosures for government summary financial statements. The project has been undertaken because concerns have been raised about the level of aggregation of government summary financial statements. The objective of requiring disclosures on governmental segments is to help users of financial statements better understand the different types of activities that government engage in. The guidance in this Section is intended to start with the summary financial statements and separate out key financial information into segments in order to provide relevant information for accountability and decision-making purposes, while ensuring that the information is consistent with the summary statements. <p>This Section is effective for years beginning on or after April 1, 2007 (i.e fiscal 2008)</p>	<ul style="list-style-type: none"> Per discussions with City of Ottawa management, required disclosure will be incorporated in the December 31, 2008 statements.
<p>PS 3150 Tangible Capital Assets</p>	<ul style="list-style-type: none"> In September 2006, PSAB approved final 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 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 financial statements of local governments. <p>This Section is effective for years beginning on or after January 1, 2009</p>	<ul style="list-style-type: none"> Our understanding is that the City of Ottawa has commenced steps towards complying with this standard.

Accounting & Auditing Developments

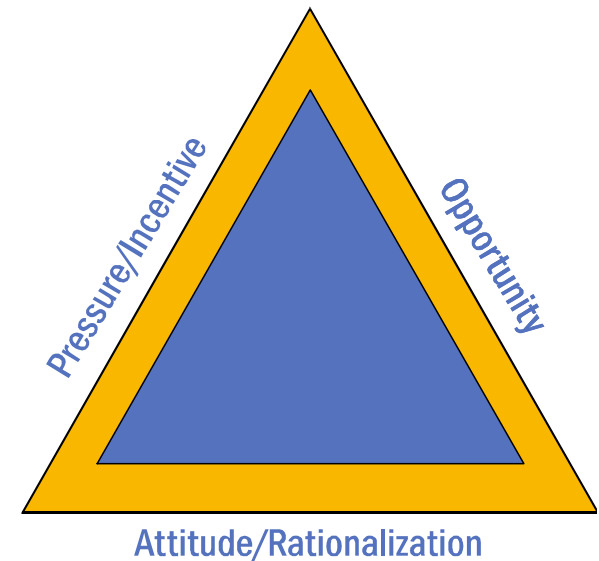
Accounting & Auditing Developments	Summary	Effect on the Company
<p>Financial Instruments</p>	<ul style="list-style-type: none"> • A Task Force comprising representatives from senior governments and academia is developing a statement of principles. The Task Force is also considering the guidance for governments in accounting for the results of government business enterprises reporting other comprehensive income (OCI). • Presently, guidance in the PSA Handbook in respect of accounting for derivative financial instruments is limited to their application in hedging foreign currency items. Derivative financial instruments are increasingly being used by governments to manage other financial exposures such as interest rate exposures. Given the complexity of many financial instrument derivative contracts, a primary objective of the project will be to craft standards that will make reporting by governments on the use of financial instrument derivatives as transparent and understandable as possible. • A final PSA Handbook Section is not expected to be approved until March 2008. 	<ul style="list-style-type: none"> • No formal implementation steps will be undertaken by City of Ottawa management until a PSA handbook section is finalized.

Critical Policies, Estimates & Areas of Emphasis

Area	EY 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	All year end balances will be confirmed. 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 2007 valuation methods and assumptions used by Mercer, the actuaries. We will conclude the method used was in compliance with Canadian Generally Accepted Accounting Principles as per PS handbook 3250 and that 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 all new public private partnership agreements and determine the appropriateness of the accounting for these transactions.
Other:	
OC Transpo Benefit Plan and City of Ottawa Superannuation Fund	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.

Fraud Considerations and the Risk of Management Override

- 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 Corporate Services and Economic Development Committee (consider AICPA Antifraud Paper for Committees—January 2005)
 - Process for dealing with Whistleblower allegations
 - Adequacy of Internal Audit activity
 - Entity's Risk Assessment Processes
- Role and oversight responsibilities of the Corporate Services and Economic Development 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 and Transparent Fees



Fair & Transparent Fees

2007 Audit Fee Summary

Engagement Name	2007 audit fees	2006 audit fees
City of Ottawa Consolidated	\$ 154,500	\$ 148,500
City of Ottawa - Library Schedule	\$ 2,080	\$ 2,000
Pineview Municipal Golf Course	\$ 10,000	\$ 9,500
Business Improvement Areas (13)	\$ 14,000	\$ 12,500
City of Ottawa Sinking fund	\$ 11,000	\$ 10,500
Endowment Fund (new in fiscal 2007)	\$ 5,500	\$ -
City of Ottawa - Superannuation fund	\$ 11,000	\$ 10,500
OC Transpo Pension Plan audit	\$ 9,500	\$ 9,000
OC Transpo Benefit Trust	\$ 10,000	\$ 9,500
Total	\$ 227,580	\$ 212,000
Somerset Chinatown	\$ 2,600	\$ 2,500
Municipal Funding Agreement - Gas Tax	\$ 9,360	\$ 9,000
In House Waste Collection	\$ 11,440	\$ 11,000
Public Health	\$ 4,470	\$ 4,300
Healthy Babies/Healthy Children Settlement forms	\$ 3,430	\$ 3,300
Smoke Free Ontario	\$ 3,430	\$ 3,300
AIDS Bureau settlement forms	\$ 3,430	\$ 3,300
Rent Bank	\$ 5,300	\$ 5,100
Long Term Care Section II, IV and VII of Annual reconciliation	\$ 4,470	\$ 4,300
Long Term Care Trust Funds	\$ 4,470	\$ 4,300
Annual Program Expenditure Reconciliations	\$ 14,040	\$ 13,500
Grand Total	\$ 294,020	\$ 275,900

Appendix B—Timing of Required Communications

	Communicate When Event Occurs	Communicate On a Timely Basis, At Least Annually	Communicate Prior to Completion of Audit
Communications Required on All Audits:			
Audit and Non-Audit Services Provided to The Entity and Related Entities			CICA 5751
Our Responsibility Under GAAS, Including Other Information in Documents Containing Audited Financial Statements		CICA 7500	CICA 5751
Our overall audit strategy			CICA 5751
Fraud and Illegal Acts Involving Senior Management and Fraud and Illegal Acts that Cause an Other Than Trivial Misstatement of the Financial Statements		CICA 5135 and 5136	
Significant Weaknesses in Internal Control	CICA 5220		
Related Party Transactions		CICA 6010	
Significant Audit Adjustments		CICA 5751	
Unrecorded Audit Differences Considered by Management to Be Immaterial		CICA 5751	
The Adoption of, or a Change in, an Accounting Principle, Including Material Alternative Accounting Treatments Discussed With Management and Acceptability of Particular Policy used by Management		CICA 5751	
Methods of Accounting for Significant Unusual Transactions and for Controversial or Emerging Areas		CICA 5751	
Our Judgments About the Qualitative Aspects of the Company's Accounting Principles		CICA 5751	
Sensitive Accounting Estimates and Disclosures, Including Basis for Our Conclusions Regarding Reasonableness of Those Estimates		CICA 5751	
Matters Relating to Component Entities of the Company		CICA 5751	
Disagreements with Management		CICA 5751	
Consultations with Other Accountants		CICA 5751	
Major Issues Discussed with Management in Connection with Initial or Recurring Retention		CICA 5751	
Serious Difficulties Encountered in Dealing with Management When Performing the Audit		CICA 5751	
Communication of Independence Matters		CICA 5751	

Appendix B—Timing of Required Communications (continued)

	Communicate When Event Occurs	Communicate On a Timely Basis, At Least Annually	Communicate Prior to Completion of Audit
Additional Communications Required on Audits of Public Companies:			
Fees and Related Regulatory Disclosures		CSA	CICA 5751
Committee Pre-Approval of Services		CSA, CICA Independence standard	

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