

# **The City of Ottawa**

2013 audit results  
December 31, 2013

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June 12, 2014

Members of the Audit Sub-Committee (the “Committee”)

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, which we anticipate will be completed in July 2014.

Our audit was designed to express an opinion on the 2013 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 Committee members, 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 EY, 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 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 answer any questions you may have about these or any other audit-related matters.

Very truly yours,

The logo for Ernst & Young LLP, featuring the company name in a stylized, handwritten-style font. Below the name, the text "Chartered Accountant" and "Licensed Public Accountants" is printed in a smaller, sans-serif font.

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## 2013 EY services

### 2013 EY services

#### Services and Deliverables

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#### **Audit and audit –related services**

- Consistent with our audit plan,
- we express an opinion, and report to the Audit Sub-Committee, on the results of our audit of the consolidated financial statements of the City;
- we express opinions on, and report to appropriate members of management on the results of our audits of:
  - the separate financial statements and/or financial information of the City related entities and programs in accordance with municipal requirements;
- we issue a written communication to:
  - management and the Audit Sub-Committee describing significant deficiencies identified during our audit, if any;
  - the Audit Sub-Committee noting any independence matters in accordance with Canadian professional standards;
- We issue a management letter including recommendations for improvements in controls and procedures, if necessary.

#### **Other Services**

- We perform translation of the French consolidated financial statements and financial highlights included in the annual report of the City of Ottawa.
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## Executive Summary

### Key audit results matters

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**Significant  
2013  
considerations**

**Status**

- The 2013 audit is progressing as planned; after completing our remaining procedures, as outlined in “Open items” below, we expect to issue an unqualified opinion on the consolidated financial statements.

**Scope**

- Our audit scope is consistent with the plan communicated in November 2013; we continually reassess our planned audit approach to address risk and areas of emphasis throughout the audit.

**Results**

- The City’s analysis of significant accounting matters is reasonable;\*
- Consistent methodology and reasonable judgments have been used by management to account for sensitive accounting estimates; any significant differences identified as part of our audit procedures are described in this report;
- Corrected and uncorrected misstatements were identified as a result of the audit; any significant differences identified as part of our audit procedures are described in this report;
- We were able to rely on certain information technology (IT) general controls as well as certain controls over accounts payable, expenditures and payroll for purposes of our audit; and,
- Ongoing cooperation and communication between the City and EY supported an effective audit process.

\*These matters are further described within this report.

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### Open items

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- Obtain a letter of representation from management as of the date that the consolidated financial statements are approved by Council (anticipated approval to be July 2014);
  - Perform final procedures relating to our review of the City’s consolidated financial statements and the annual report;
  - Complete subsequent events review procedures up until July 2014, the anticipated date of approval of the City’s consolidated financial statements;
  - Obtain legal letters from internal and external counsel, up until July 2014, the anticipated date of approval of the City’s consolidated financial statements;
  - Assess any fraud or subsequent events information provided by members of the Audit Sub-Committee upon review of this document.
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## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Provided below is a summary of the City's critical accounting policies and sensitive accounting estimates, which are in accordance with Public Sector Accounting Standards (PSAS)

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
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#### **Revenue Recognition**

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The City recognizes revenue in accordance with PS 1200 - *Financial Statement Presentation*, PS 3100 – *Restricted assets and revenues*, PS 3410 - *Government Transfers*, and PS 3510 - *Tax Revenue*

Taxation revenues are recorded in the period to which the assessment relates and reasonable estimates of amounts can be made.

The City adopted PS3510 – Tax Revenue in 2013. The adoption of this standard did not have a significant impact on the accounting for tax revenue in the City's financial statements.

The City also adopted PS3410-Government Transfers in fiscal 2013 on a prospective basis. In applying this new standard, the City reviewed its deferred government transfer funding to determine whether stipulations existed which resulted in an ongoing liability under the new standard. As a result of this review, the City identified \$177.6M of deferred revenue which did not meet the definition of a liability and was therefore recognized in revenue in the current year.

We obtained the funding agreements and, based on our review, the City's assessment appears reasonable.

Other than described above, the method for recognizing revenue is consistent with the prior year policy and industry practice.

#### *Taxation revenue*

- We walked through and updated our understanding of the flow of transactions for taxation revenues.
- We performed detailed analytics over taxation revenues based on confirmation obtained from the Municipal Property Assessment Corporation (MPAC) and municipal tax rates as approved by City Council.

## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
<b>Revenue Recognition (continued)</b>	

Government transfer revenues are recognized in revenue when they are authorized and when eligibility criteria have been met. Under certain circumstances, agreements may include stipulations creating a liability which is deferred until the related stipulations are met.

#### *Government transfer revenue*

- We walked through and validated our understanding of the flow of transactions for government transfer revenues.
- We validated the occurrence of government transfer revenues by testing that the relevant terms and conditions of the particular government transfers were met for significant samples as well as a representative sample.
- We validated the completeness of government transfer revenues by testing that significant government transfer revenues recognized in the beginning of 2014 were recorded in the correct year.

Based on the procedures performed, we believe the City's accounting for government transfer and taxation revenues appears reasonable.

## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
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#### **Contingent Liabilities**

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The City accounts for contingent liabilities in accordance with PS 3300 – *Contingent Liabilities*

Accruals are recorded for regulatory and legal proceedings that arise in the ordinary course of business when likely and subject to reasonable estimation.

Many factors are considered in making an assessment of a contingency, including history and stage of litigation. Estimates are based upon consultation of legal counsel (in-house and/or external). Legal fees are generally expensed as incurred.

- We reviewed the contingent liabilities balance and assessed management and legal counsels' assumption for each significant contingent liability identified;

- We confirmed with both in-house and external legal counsel the completeness of the contingent liabilities reported by management;

Based on the procedures performed, the City's treatment of contingent liabilities at December 31, 2013 appears reasonable.



## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
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#### Investments and Financial Instruments

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The City accounts for investments and financial instruments in accordance with PS 3040 – *Portfolio Investments*

The City measures investments and financial instruments at amortized cost less amounts impaired to reflect a permanent decline in value.

If fair value of investments is less than cost, the City must assess whether the impairment is considered an other-than-temporary impairment to be recognized in the statement of operations.

- We confirmed with RBC Dexia the City's investments maturity dates, par value, market value, and coupon rate;
- We recalculated the book value of the City's investments;
- We recalculated accrued interest and completed a reasonability over the investment income earned in the year;
- We tested the market value of a sample of investments;
- We assessed whether there have been any other-than-temporary impairments where the book value of the City's investments were significantly higher than market value;

Based on the procedures performed, the City's investment and financial instrument balances recorded at December 31, 2013 appear reasonable.

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## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate

Evaluation of the quality and application of accounting policies and reasonableness of estimate

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#### Employee Benefit Costs

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The City accounts for employee benefit costs in accordance with PS 3250 - *Retirement Benefits* and PS 3255 – *Post-Employment Benefits, Compensated Absences and Termination Benefits*

The related liabilities and annual expense are determined by external actuaries using assumptions established by the City's management. The assumptions are based on the City's own experience and forecasts for various attributes. The significant assumptions used in the actuarial valuation as at December 31, 2013 are:

- Discount rate – 3.80% - 5.25% [2012 – 3.25% - 5.00%]
- Salary increase rate –1.97% - 2.50% [2012 – 1.50% - 2.25%]
- Inflation rate– 2.25% [2012 – 2.25%]

- We engaged our internal actuarial specialists to review the key assumptions used in the accounting actuarial valuation prepared at December 31, 2013 for each of the OC Transpo Employee's Pension Plan, the City of Ottawa Superannuation Fund ("COSF") and the Other non-pension post-retirement and post-employment benefits ("OPEB"). We also reviewed the approach applied by management's external experts (the "actuaries") in performing the valuation.

- We reviewed the valuation methods and assumptions used by the actuaries and verified that the methods and assumptions used were in accordance with PSAS.

- We assessed the reasonableness of the disclosures.

- Based on the procedures performed, we identified the following differences related to the City's treatment of employee benefit costs.

- In 2005, City Council resolved to provide COSF plan members with additional indexation of their benefits, at the discretion of City Council and subject to the solvency of the plan. Indexation has increased incrementally over a 5-year period, from the original 55% in 2005 to 100% in 2010.

## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
<b>Employee Benefit Costs (continued)</b>	

- The City has not recorded a liability associated with the additional indexation because:

1) any future indexation payments are at the discretion of City Council; and 2) the amount of any future payments could vary based on the inflation rate and the solvency of the plan (range of \$nil to \$14.0M).

As a result, we have identified a judgemental audit difference resulting in an unrecorded liability of \$14.0M, assuming indexation up to January 1, 2014. The prior year amount was \$12.5M. The difference year over year represents an understatement of expenses in the current year of the difference of \$1.5M. These amounts have not been recorded by the City.

- The City identified a financial asset which had been incorrectly expensed through employee benefits in prior years. The current year impact on the Statement of Operations to correct this error is a 16.4M understatement of expenses. The correction was recorded by the City in order to accurately reflect the prior year \$16.4M financial asset on the Statement of Financial Position.

## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
<b>Tangible Capital Assets</b>	
<p>The City records its tangible capital assets in accordance with PS 3150 – <i>Tangible Capital Assets</i></p>	<ul style="list-style-type: none"><li>• We reviewed and assessed the City’s process for accumulating and reporting its tangible capital assets in accordance with PS 3150; this process included 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.</li></ul>
<p>Tangible capital assets are recorded at cost, which includes amounts that are directly attributable to acquisition, construction, development, or betterment of an asset. The costs, less residual value, of the tangible capital assets, excluding land, are amortized on a straight-line basis over their estimated useful lives.</p>	<ul style="list-style-type: none"><li>• We audited the City’s December 31, 2013 tangible capital assets balances and the related fiscal 2013 activity, consisting of additions, disposals, and amortization. We performed detailed testing on additions and disposals during the year and we recalculated amortization expense.</li><li>• We reviewed the City’s accounting for amortization and disclosures related to Tangible Capital Assets and concluded that the City’s policy and disclosures appear reasonable in the current year.</li></ul>
	<p>As disclosed in our 2012 audit results report, the amortization expense for 2011 and 2012 was understated. The result of this error is an overstatement of tangible capital assets of approximately \$18M in the current year that remains uncorrected. This amount has been included in our summary of audit differences below.</p>
	<ul style="list-style-type: none"><li>• Our audit work over tangible capital assets focused on the key financial statement assertions related to tangible capital assets, namely existence, completeness, valuation, presentation and disclosure of tangible capital assets.</li></ul>

## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting  
Policy/Estimate

Evaluation of the quality and application of accounting  
policies and reasonableness of estimate

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#### **Tangible Capital Assets (continued)**

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- We have reviewed the agreements related to the Ottawa Light Rail Transit project and concluded that the City's treatment of costs and disclosure of outstanding commitments appears reasonable.
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## 2013 Audit results

### Accounting policies, estimates and areas of audit emphasis

Description of Accounting Policy/Estimate	Evaluation of the quality and application of accounting policies and reasonableness of estimate
<hr/> <b>Commitments</b> <hr/>	
The City accounts for commitments in accordance with PS 3390 – <i>Contractual Obligations</i>	<ul style="list-style-type: none"><li data-bbox="727 533 1502 640">• We assessed whether commitments were disclosed based on agreements and contracts entered into by the City during the year;</li><li data-bbox="727 674 1502 781">• We tested the valuation of commitments included in the consolidated financial statements on a sample basis;</li><li data-bbox="727 814 1502 921">• We will be obtaining management representation regarding any commitments entered into during the year;</li></ul> <p data-bbox="727 955 1502 1066">Based on the procedures performed, the City’s disclosure of commitments in the December 31, 2013 consolidated financial statements appears reasonable.</p>

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## **Inquiries relating to matters relevant to the audit**

We are responsible for performing inquiries of Audit Sub-Committee members related to fraud and other matters relevant to the audit.

We ask that members of the committee please provide us with information related to knowledge of any actual, alleged or suspected fraud which could have a significant impact on the financial statements; awareness of tips or complaints regarding the City's financial reporting which could have a significant impact on the financial statements; and, awareness of any other matters relevant to the audit including, but not limited to, violations or possible violations of laws or regulations.

## Fraud considerations and the risk of management override

We are responsible for planning and performing our audit to obtain reasonable assurance about whether the consolidated 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>Revenue Recognition – Delaying or advancing recognition of revenue to meet budget given the importance of budget figures in assessing the performance of the organization combined with complexity and judgment related to timing of recognition of government transfers.</p>	<p>A comparison of amounts to budget is performed by management.</p> <p>Management reviews assumptions supporting significant estimates.</p>	<p>We documented our understanding of the flow of transactions for deferred revenue and government transfer revenues.</p> <p>We substantively tested the existence of the significant deferred revenue balances by validating key items.</p> <p>We reviewed the occurrence of government transfer revenues by validating that key items and conditions have been met for significant samples as well as a representative sample.</p> <p>We validated the completeness of government transfer revenues by testing significant government transfer revenues recognized in the beginning of 2014.</p> <p>We concluded that the government transfer revenues recognized in the year as well as the deferred revenue balance as at the end of 2013 appears reasonable.</p>



## Summary of significant audit differences

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 or reported under PSAS. The following is a summary of significant audit differences we have identified through the date of this report that have not been adjusted by the City.

Although the uncorrected differences included on our detailed summary of audit differences are not material to the 2013 consolidated financial statements, they could cause a future period's consolidated financial statements to be materially misstated. As a result, we encourage the recording of all audit differences whether significant or not.

### Significant unadjusted audit differences

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#### *Impact on Statement of Financial Position*

- |  |           |
|--|-----------|
| 1. Overstatement of tangible capital assets (current year impact related to error in 2011 and 2012 amortization).* | \$18.0M * |
| 2. Understatement of pension liability for COSF related to additional indexation.                                  | \$14.0M   |

#### *Impact on Statement of Operations*

- |  |           |
|--|-----------|
| 1. Current year impact on Statement of Operations related to correction of prior period overstatement of employee benefit expense.** | \$16.4M** |
|--|-----------|

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\*This error will reverse through the Statement of Operations in coming years. We will report to the committee as it reverses, if significant.

\*\* No impact on December 31, 2013 Statement of Financial Position. The effect of correcting the prior period error is an understatement of the current year expenses. The correction was recorded by the City in order to reflect the financial asset on the Statement of Financial Position.

## **Summary of significant disclosure differences**

During the course of our audit, we identify those significant disclosures required in the 2013 consolidated financial statements of the City, that we believe were not adequately reflected. There were no significant disclosure differences identified.

# **Appendix A - Required communications with audit committees**

## Summary of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Auditor's responsibility under Canadian GAAS , including discussion of the type of opinion we are issuing		X
Overview of planned scope and timing		X
Other information in documents containing the audited consolidated financial statements		X
Major issues discussed with management in connection with initial or recurring retention	X	
Significant audit adjustments, including significant disclosure differences that merit the attention of those charged with governance		X
Uncorrected misstatements, including significant disclosure differences that merit the attention of those charged with governance, considered by management to be immaterial		X
Critical accounting policies and practices		X
Our judgments about the quality of the City's accounting principles		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

**Summary of required communications (continued)**

	Communicate when event occurs	Communicate on a timely basis, at least annually
Material alternative accounting treatments discussed with management		X
Disagreements with management	X	
Consultations with other accountants	X	
Serious difficulties encountered in dealing with management when performing the audit	X	
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the consolidated financial statements	X	
Other material written communications with, and representations sought from management		X
Independence matters		X
Other findings or issues regarding the oversight of the financial reporting process	X	
Subsequent events		X
Related-party transactions		X
Matters related to the component entities of the City		X
All relationships between auditor and the City		X

## Required communications

Area	Comments
<p data-bbox="131 302 906 411"><b>Auditor’s responsibility under Canadian GAAS, including discussion of the type of opinion we are issuing</b></p> <p data-bbox="131 428 906 680">The consolidated financial statements are the responsibility of management. Our audit was designed in accordance with Canadian auditing standards to obtain reasonable, rather than absolute, assurance about whether the consolidated financial statements are free of material misstatement.</p>	<p data-bbox="911 386 1524 596">Upon completion of our remaining audit procedures, we currently expect to issue an unqualified opinion on the City’s consolidated financial statements as of and for the year ended December 31, 2013.</p>
<p data-bbox="131 722 906 756"><b>Overview of planned scope and timing</b></p> <p data-bbox="131 793 906 1117">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.</p>	<p data-bbox="911 848 1524 991">Communicated at the audit planning meeting held on November 28, 2013. There were no significant changes in the planned scope and timing of our audit.</p>

**Required communications (continued)**

Area	Comments
<p><b>Our responsibility, any procedures performed and the results relating to other information in documents containing the audited consolidated financial statements</b></p> <p>Our consolidated financial statement audit opinion only relates to the consolidated financial statements and accompanying notes. However, we also review other information such as the Financial Discussion and Analysis, and consider whether such information, or the manner of its presentation, is materially inconsistent with the audited consolidated financial statements. If we conclude that a material inconsistency exists, we determine whether the consolidated financial statements, our auditor’s report, or both, require revision. In addition, we notify you if we conclude that there is a material misstatement of fact in the other information.</p>	<p>When it is available, we will review the City’s Annual Report and Financial Discussion and Analysis.</p>
<p><b>Major issues discussed with management in connection with initial or recurring retention</b></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, the scope of the audit, financial statement disclosures and the wording of the auditor’s report.</p>	<p>None.</p>

## Required communications (continued)

Area	Comments
<p><b>Significant audit adjustments, including disclosure differences that merit the attention of those charged with governance</b></p> <p>We provide the Audit Sub-Committee with information about adjustments and disclosure differences that merit the attention of those charged with governance 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 consolidated financial statements</p>	<p>All significant adjustments have been discussed earlier in this report. There were no disclosure differences related to the 2013 audit.</p>
<p><b>Uncorrected misstatements, including disclosure differences that merit the attention of those charged with governance, considered by management to be immaterial</b></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 consolidated financial statements as a whole.</p>	<p>Refer to the “Summary of audit differences” and “Summary of significant disclosure differences” sections.</p>



## Required communications (continued)

Area	Comments
<p><b>Critical accounting policies and practices</b></p> <p>We communicate all critical accounting policies and practices used by the City in preparing the consolidated financial statements and our assessment of the disclosure of such policies.</p>	<p>We have provided our views in the section titled, “Accounting policies, estimates and areas of audit emphasis”.</p>
<p><b>Our judgments about the quality of the City’s accounting principles</b></p> <p>We discuss our judgments about the quality, not just the acceptability, of the accounting principles as applied in the City’s financial reporting, including the consistency of the accounting policies and their application, accounting estimates and the clarity and completeness of the consolidated 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 consolidated 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 PSAS.</p> <p>We have provided further views in the section titled “Accounting policies, estimates and areas of audit emphasis”.</p>

## Required communications (continued)

Area	Comments
<p><b>The adoption of, or a change in, an accounting principle</b></p> <p>We determine that the Audit Sub-Committee is informed about the initial selection of, and any changes in, significant accounting principles or 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 consolidated financial statements.</p>	<p>Refer to “Accounting policies, estimates and areas of audit emphasis” section where we discuss the implementation of two new accounting standards adopted in the current year - PS 3410 – Government Transfers and PS3510 – Tax Revenue.</p>
<p><b>Methods of accounting for significant unusual transactions and for controversial or emerging areas</b></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>
<p><b>Sensitive accounting estimates</b></p> <p>The preparation of the consolidated financial statements requires the use of accounting estimates. Certain estimates are particularly sensitive due to their significance to the consolidated 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>We have provided our views in the section titled, “Accounting policies, estimates and areas of audit emphasis”.</p>

**Required communications (continued)**

Area	Comments
<p><b>Material alternative accounting treatments discussed with management</b></p> <p>We discuss with the Audit Sub-Committee all alternative accounting treatments within PSAS 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"> <li>• 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.</li> <li>• The treatment preferred by us.</li> </ul>	<p>None.</p>
<p><b>Disagreements with management</b></p> <p>We discuss with the Audit Sub-Committee any reportable disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the City’s consolidated financial statements or the auditor’s reports.</p>	<p>None.</p>
<p><b>Consultations with other accountants</b></p> <p>When we are aware that management has consulted with other accountants about accounting, auditing or reporting 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 (continued)**

Area	Comments
<p><b>Serious difficulties encountered in dealing with management when performing the audit</b></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><b>Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the consolidated financial statements</b></p> <p>We communicate to the Audit Sub-Committee 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 consolidated financial statements.</p>	<p>We are not aware of any matters that require communication. Refer to the “Fraud considerations and the risk of management override” section for more information about our procedures related to the risks of material misstatement due to fraud.</p>
<p><b>Other material written communications with, and representations sought from management</b></p> <p>We determine that the Audit Sub-Committee has received copies of all material written communications with management, including representations requested from them related to uncorrected errors.</p>	<p>Our independence letter is included in this report. The letter of representation and final summary of unrecorded audit differences will be circulated after our final audit procedures have been performed.</p>

## Required communications (continued)

Area	Comments
<p><b>Independence matters</b></p> <p>We communicate, at least annually, the following to the Audit Sub-Committee:</p> <ul style="list-style-type: none"> <li>• Describe, in writing, all relationships between EY 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;</li> <li>• Discuss with the Audit Sub-Committee the potential effects of those relationships on independence; and</li> <li>• Affirm, in writing, that we are independent with respect to the City within the meaning of Canadian professional standards</li> </ul>	<p>Please refer to “Appendix B – Independence letter” section.</p>
<p><b>Other findings or issues regarding the oversight of the financial reporting process</b></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><b>Subsequent events</b></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 consolidated financial statements.</p>	<p>All material subsequent events were disclosed in the notes to the consolidated financial statements. See “Accounting policies, estimates and areas of audit emphasis” section for more details.</p>

**Required communications (continued)**

Area	Comments
<p><b>Related party transactions</b></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>
<p><b>Matters relating to component entities of the City</b></p> <p>When the consolidated 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.</p>	<p>No such matters were noted in relation to our audits of significant component entities of the City including Hydro Ottawa Holding Inc. and Ottawa Community Housing Corporation.</p>

# **Appendix B – Independence letter**

## Annual Independence Letter

June 12, 2014

The Audit Sub-Committee

The City of Ottawa

We have been engaged to audit the consolidated financial statements of the City of Ottawa (the “City”) for the year ending December 31, 2013.

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 arising since May 15, 2013, the date of our last letter.

The engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the relevant ethical requirements regarding independence.

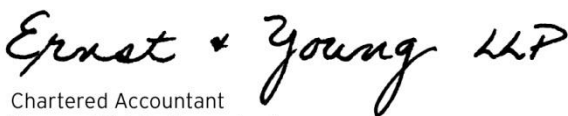
We are not aware of any relationships between Ernst & Young and the City that, in our professional judgment, may reasonably be thought to bear on our independence since May 15, 2013, the date of our last letter.

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 12, 2014.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting.

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

Yours truly,



Chartered Accountant  
Licensed Public Accountants



EY | Assurance | Tax | Transactions | Advisory

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EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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