

The City of Ottawa

2016 audit results
December 31, 2016

Ernst & Young LLP
Chartered Professional Accountants
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May 15, 2017

Members of the Audit 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 June 2017.

Our audit was designed to express an opinion on the 2016 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 image shows the handwritten logo for Ernst & Young LLP in a cursive script.

Chartered Professional Accountants
Licensed Public Accountants

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2016 EY services

Services and Deliverables

Audit and audit-related services

- Consistent with our audit plan,
 - we express an opinion, and report to the Audit 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 your reporting requirements;
- we issue a written communication to:
 - management and the Audit Committee describing significant deficiencies identified during our audit, if any;
 - the Audit Committee noting any independence matters in accordance with Canadian professional standards;
- We issue a letter to management 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.

Executive Summary

Key audit results matters

Significant 2016 considerations

Status

- The 2016 audit is progressing as planned. After completing our remaining procedures, as outlined in “Open items” below, we expect to issue an unmodified opinion on the consolidated financial statements.

Scope

- Our audit scope is consistent with the plan communicated in December 2016. We continually reassess our planned audit approach to address areas of risk and audit 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.

Open items

- Obtain final documentation from the component audit team of Hydro Ottawa Holding Inc.;
- Complete and perform final review of certain sections;
- Obtain a letter of representation from management as of the date that the consolidated financial statements are approved by Council (anticipated approval to be June 14, 2017);
- Perform final procedures relating to our review of the City’s annual report;
- Perform final procedures relating to the actuarial work on pension plans, other employee benefits, and Workplace Safety Insurance Board benefit plans (“WSIB”);

- Complete subsequent events review procedures to the date of our audit report on June 14, 2017 (the anticipated date of approval of the City's consolidated financial statements);
- Obtain legal letters from internal and external counsel, to June 7, 2017, within five days of 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 Committee upon review of this document.

2016 Audit results

Accounting policies, estimates and areas of audit emphasis

Our audit procedures emphasized testing those processes, accounts, contracts or transactions where we believed there was the greatest potential for risk of material misstatement to the consolidated financial statements, whether due to error or fraud, including disclosure items. We have applied the concept of materiality in planning and in performing the audit. Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. In line with our audit plan, we review the preliminary materiality level and adjust it during the audit if appropriate. As a result of this review, the final materiality for the audit was determined to be \$65.9M, which reflects 2.0% of actual operating expenditures for the year ended December 31, 2016.

In evaluating the effect of identified misstatements on the audit we have considered both a quantitative materiality threshold as well as qualitative factors such as the nature of the error, the impact on the economic decision of users, and the impact on key ratios.

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).

Revenue Recognition

Description of Accounting Policy/Estimate/ Areas of audit emphasis

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 where reasonable estimates of amounts can be made.

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.

Development charges must be used for specific purposes and are deferred and recognized in revenue in the period in which the resources are used for the purpose or purposes specified.

Summary of procedures and findings

The methods for recognizing revenue are 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.

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.

Development charges revenue

We walked through and validated our understanding of the flow of transactions for development charges revenue.

We validated the occurrence of development charge revenues by performing test of details over a sample.

Through our procedures, we noted that the City had overstated development charges revenue by \$6.2M in the prior year. The City recorded an adjustment in the current year to correct for this error, which resulted in an understatement of development charges revenue of \$6.2M in the current year.

Based on the procedures performed to-date, aside from the difference described above, the City's accounting for taxation revenue, government transfers, and development charges appears reasonable.

2016 Audit results

Accounting policies, estimates and areas of audit emphasis

Contingent Liabilities

Description of Accounting Policy/Estimate/ Areas of audit emphasis

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.

Summary of procedures and findings

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 (if applicable) to assess the completeness of the contingent liabilities reported by management.

Based on the procedures performed to-date, no issues have been identified.

Investments and Financial Instruments

Description of Accounting Policy/Estimate/ Areas of audit emphasis

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.

Summary of procedures and findings

We confirmed with RBC Investor Services the City's investment maturity dates, par value, market value, and coupon rate;

We recalculated the carrying 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 carrying value of the City's investment was significantly higher than market value.

Based on the procedures performed to-date, the City's accounting for investment and financial instrument balances recorded at December 31, 2016 appears reasonable.

2016 Audit results

Accounting policies, estimates and areas of audit emphasis

Employee Benefit Costs

Description of Accounting Policy/Estimate/ Areas of audit emphasis

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 City 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, 2016 are:

- Discount rate – 2.80% to 4.80% [2015 – 2.80% to 5.00%]
- Salary increase rate – 1.75% to 2.50% [2015 – 2.00% to 2.50%]
- Inflation rate – 2.00% [2015 – 2.00%]

Summary of procedures and findings

We engaged our internal actuarial specialists to review the key assumptions used in accounting for the actuarial valuation prepared at December 31, 2016 for each of the OC Transpo Employee's Pension Plan, the City of Ottawa Superannuation Fund ("COSF"), the other non-pension post-retirement and post-employment benefits ("OPEB"), and WSIB. 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 were in accordance with PSAS. In addition, we assessed the reasonableness of the disclosures.

An actuarial valuation on WSIB was prepared to support the liability as of December 31, 2016. Our actuaries have reviewed the key assumptions used and their conclusion is pending completion of outstanding procedures.

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

- 1) The City has not recorded a liability in prior years associated with the additional indexation of the COSF plan members' benefits 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 \$16.2M).

As a result, we have identified a judgmental audit difference resulting in an unrecorded liability of \$16.2M, assuming indexation up to January 1, 2017. The prior year amount was \$15.6M, resulting in an understatement of current year expenses of the difference of \$0.6M. These amounts have not been recorded by the City.

- 2) The WSIB liability was overstated by \$6.9M in the prior year which was corrected in the current year resulting in an understatement of current year expenses. In fiscal 2016, the City had an actuarial valuation for accounting purposes prepared by its actuaries to determine the value of its WSIB benefit obligation (previously, an actuarial valuation was prepared for the WSIB and then provided to the City to determine its share of the obligation). As a result of our review of this valuation, we identified that the prior year liability was overstated by \$6.9M; to correct this, employee future benefits expense for the year ended December 31, 2016 was understated by \$6.9M.
- 3) Through our review of the actuarial valuation prepared to support the City in measuring its other post-employment and post-retirement benefit plans, we noted that the current year employee future benefits liability was understated by \$7.6M. This difference was the result of a clarification of certain pre-existing plan provisions, which resulted in a greater obligation. This difference is being amortized through the Statement of Operations over the estimated average service life of employees and, as such, will reverse gradually over future years.

Based on the procedures performed to-date, other than the differences as described above, no issues were noted.

2016 Audit results

Accounting policies, estimates and areas of audit emphasis

Tangible Capital Assets

Description of Accounting Policy/Estimate/ Areas of audit emphasis

The City records its tangible capital assets in accordance with PS 3150 – Tangible Capital Assets.

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.

Summary of procedures and findings

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 and cost of the asset to be recorded, validating the existence and completeness of the asset and recording the depreciation of the asset.

We audited the City's December 31, 2016 tangible capital assets balance and the related fiscal 2016 activity, consisting of additions, disposals, and amortization. We performed detailed testing on additions and disposals during the year and the related timing of capitalization and we recalculated amortization expense.

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.

Our audit work over tangible capital assets focused on the key financial statement assertions related to tangible capital assets, namely existence, ownership, completeness, valuation, presentation and disclosure of tangible capital assets.

We reviewed the agreements related to the Ottawa Light Rail Transit, Arts Court, and Innovation Centre at Bayview Yards projects and concluded that the City's treatment of costs and disclosures of outstanding commitments appears reasonable.

Based on the procedures performed to-date, we identified the following differences related to the City's treatment of tangible capital assets:

- 1) Tangible capital assets were overstated by \$9.8M in the prior year as a result of asset under construction ("AUC") balances that should have been expensed in prior years. The City adjusted the difference in the current year which has created an overstatement of the loss on disposal in the current year. There is no impact on the December 31, 2016 Statement of Financial Position as the City corrected the difference in the current year and the related tangible capital asset balance is accurately reflected at year end.

- 2) As identified in 2012, amortization expense for 2011 and 2012 was understated due to a recommended internal policy change in amortizing assets with useful lives of 5 years or greater. The result of this error is an overstatement of tangible capital assets of approximately \$13.9M in the current year that remains uncorrected. This error will reverse through the Statement of Operations in coming years.

Based on the procedures performed to-date, other than the differences identified above, no issues were noted.

Commitments

Description of Accounting Policy/Estimate/ Areas of audit emphasis

The City accounts for commitments in accordance with PS 3390 – Contractual Obligations.

Summary of procedures and findings

We assessed whether commitments were disclosed based on agreements and contracts entered into by the City during the year;

We tested the valuation of commitments included in the consolidated financial statements on a sample basis;

We obtained management representation regarding any commitments entered into during the year;

Based on the procedures performed to-date, no issues have been identified.

Inquiries relating to matters relevant to the audit

In line with our audit plan, we are responsible for performing inquiries of the Audit Committee members related to fraud and other matters that help inform our audit strategy and the execution of our audit procedures.

We ask that members of the Committee please provide us with information on any other matters of which you believe we should be aware, including, but not limited to the following:

- Your views about the risks of material misstatements due to fraud;
- Your knowledge of any actual, alleged or suspected fraud which could have a significant impact on the financial statements;
- Your awareness of tips or complaints regarding the City's financial reporting which could have a significant impact on the financial statements; and,
- Your awareness of any other matters relevant to the audit including, but not limited to, violations or possible violations of laws or regulations.

Under Canadian GAAS, we are required to communicate certain findings from the audit to the Audit Committee that may assist its members in overseeing management's financial reporting and disclosure process. We summarize that information in Appendix A as they apply to the City.

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.

No fraud risks were identified which could be material to the consolidated financial statements

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.

When assessing the significant audit differences and their impact on the fair presentation of the consolidated financial statements, in all material respects, we consider both quantitative and qualitative criteria in performing our assessment.

Although the unadjusted differences included on our detailed summary of audit differences are not considered to be material to the 2016 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.

The final summary of audit differences will be provided upon completion of outstanding audit procedures.

Significant unadjusted audit differences

	<i>Description of misstatement</i>	<i>Statement of Financial Position – Overstatement (Understatement) of account balance</i>	<i>Statement of Operations – Overstatement (Understatement) of annual surplus</i>
1	Overstatement of loss on disposals as a result of correcting for AUC balances that should have been expensed in prior years.**	\$nil	(\$9.8M)
2	Overstatement of tangible capital assets (current year impact related to error in 2011 and 2012 amortization).*	\$13.9M	\$nil
3	Understatement of development charge revenue as a result of correcting for a development charge elimination entry that	\$nil	(\$6.2M)

	should have been recorded in the prior year.		
4	Understatement of employee future benefits expense as a result of correcting for an overstatement of employee future benefits liability in the prior year.	\$nil	\$6.9M
5	Understatement of employee future benefits liability as a result of correcting for clarification of certain post-employment benefit plans' provisions.*	(\$7.6M)	\$nil
6	Understatement of employee future benefits liability for COSF related to additional indexation.	(\$16.2M)	\$0.6M

*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, 2016 Statement of Financial Position. The effect of these errors is an overstatement (understatement) of the current year annual surplus. The amounts were recorded by the City in order to accurately reflect balances 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 2016 consolidated financial statements of the City, that we believe were not adequately reflected. There were no significant unadjusted 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 non-compliance with laws and regulations (illegal acts)	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

Required communications

Area	Comments
<p data-bbox="147 342 919 449">Auditor’s responsibility under Canadian GAAS, including discussion of the type of opinion we are issuing</p> <p data-bbox="147 485 919 768">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="927 422 1537 632">Upon completion of our remaining audit procedures, we currently expect to issue an unmodified opinion on the City’s consolidated financial statements as of and for the year ended December 31, 2016.</p>
<p data-bbox="147 800 919 831">Overview of planned scope and timing</p> <p data-bbox="147 905 919 1230">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="927 894 1537 1115">Our audit plan was communicated at the audit planning meeting held on December 1, 2016. There were no significant changes in the planned scope and timing of our audit other than those noted in this report.</p>

Required communications (continued)

Area	Comments
<p>Our responsibility, any procedures performed and the results relating to other information in documents containing the audited consolidated financial statements</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>Upon receipt of the City’s Annual report and Financial Discussion and Analysis, we will review to ensure consistency with the consolidated financial statements.</p>
<p>Major issues discussed with management in connection with initial or recurring retention</p> <p>We discuss with the Audit 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>Significant audit adjustments, including disclosure differences that merit the attention of those charged with governance</p> <p>We provide the Audit 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 and disclosure differences have been discussed earlier in this report.</p>
<p>Uncorrected misstatements, including disclosure differences that merit the attention of those charged with governance, considered by management to be immaterial</p> <p>We inform the Audit 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>Critical accounting policies and practices</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>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 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>We have provided our views on the critical accounting policies and practices in the section titled “Accounting policies, estimates and areas of audit emphasis”.</p>

Required communications (continued)

Area	Comments
<p>The adoption of, or a change in, an accounting principle</p> <p>We determine that the Audit 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>None.</p>
<p>Methods of accounting for significant unusual transactions and for controversial or emerging areas</p> <p>We determine that the Audit 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>Sensitive accounting estimates</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 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>Material alternative accounting treatments discussed with management</p> <p>We discuss with the Audit 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"> • Ramifications of the use of such alternative disclosures and treatments, including the reasons why the alternative was selected and, if management did not select our preferred alternative, the reasons why it was not selected. • The treatment preferred by us. 	<p>None.</p>
<p>Disagreements with management</p> <p>We discuss with the Audit 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>Consultations with other accountants</p> <p>When we are aware that management has consulted with other accountants about accounting, auditing or reporting matters, we discuss with the Audit 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>Serious difficulties encountered in dealing with management when performing the audit</p> <p>We inform the Audit Committee of any serious difficulties encountered in dealing with management related to the performance of the audit.</p>	<p>We did not encounter serious difficulties in dealing with management when performing the audit.</p>
<p>Fraud and non-compliance with laws and regulations (illegal acts)</p> <p>We communicate to the Audit 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 financial statements.</p> <p>We also communicate other matters of non-compliance with laws and regulations (illegal acts) that come to our attention during the audit, unless they are clearly inconsequential.</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>Other material written communications with, and representations sought from management</p> <p>We determine that the Audit 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 in Appendix B. The letter of representation and final summary of unrecorded audit differences will be circulated a few days prior to final approval of the statements.</p>

Required communications (continued)

Area	Comments
<p>Independence matters</p> <p>We communicate, at least annually, the following to the Audit Committee:</p> <ul style="list-style-type: none"> • 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; • Discuss with the Audit 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 letter” section.</p>
<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 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 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 consolidated financial statements.</p>	<p>As of May 15, 2017, we are unaware of any other subsequent events that have occurred that could affect the consolidated financial statements.</p>

Required communications (continued)

Area	Comments
<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>
<p>Matters relating to component entities of the City</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. 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 significant component entities of the City including Hydro Ottawa Holding Inc. and Ottawa Community Housing Corporation.</p>

Appendix B – Independence letter

Annual Independence Letter

May 15, 2017

The Audit 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, 2016.

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 26, 2016, the date of our last letter:

1. 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.
2. 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 26, 2016, the date of our last letter.

Accordingly, we hereby confirm that we are independent with respect to the City in the context of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario as of May 15, 2017.

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 Committee, management, and others within the City and should not be used for any other purposes.

Yours truly,

A handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants
Licensed Public Accountants

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