

The City of Ottawa

2019 Financial Statement Audit Plan

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Members of the Audit Committee
The City of Ottawa

Dear Members of the Audit Committee,

We look forward to discussing the current year audit plan for the City of Ottawa [the "City"] at your meeting on November 26, 2019. We will outline the scope of our services, identify the EY team scheduled to perform the audit, and present the key considerations that will affect the 2019 audit.

The audit is designed to express an opinion on the 2019 consolidated financial statements. We are currently completing the planning phase of our audit, and have aligned our procedures to consider the City's current and emerging business risks and evaluate those that could materially affect the consolidated financial statements.

We appreciate that the City of Ottawa selected EY to perform its 2019 audit and we are committed to executing an audit that is responsive to your needs and maximizes audit effectiveness, delivering the high quality you expect in the most efficient manner possible.

Very truly yours,



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2019 EY services

Services and Deliverables

Audit and audit - related services	• Express an opinion, and report to the Audit Committee on the results of our audit of: • The consolidated financial statements of the City of Ottawa and the financial information of the City of Ottawa related entities and programs in accordance with municipal or other requirements. • Issue a written communication to: • Management and the Audit Committee describing significant deficiencies in internal controls identified during our audit, if any • Management and the Audit Committee describing other deficiencies in internal controls identified during the audit that in our professional judgment, are of sufficient importance to merit their attention, if any • Management and the Audit Committee commenting on the results of the audit and addressing matters that we are required to communicate under our professional standards • Issue a management letter including recommendations for improvements in controls and procedures, should any matters be noted.
Other Services	• Perform translation of the French consolidated financial statements and financial highlights included in the annual report of the City of Ottawa.

Executive Summary

2019 considerations

Audit strategy

- Our audit strategy is risk-based and our areas of audit emphasis for the 2019 audit are outlined in the “Areas of audit emphasis” section of this document.
- As in prior years, we plan to rely on controls over certain systems and processes as part of our audit strategy.

Audit materiality

- Materiality has been set at \$72.2M and is based on based on 2019 budgeted operating expenditures.

Audit timeline

- We will perform our interim procedures during the months of September 2019 through January 2020 and our year-end procedures during the months of April and May 2020.

Audit team

- The audit team will be led by Suzie Gignac and supported by Deanna Monaghan as Engagement Quality Reviewer and Mita Meyers as senior manager.

Independence

- We are independent and have extensive quality control and conflict checking processes in place.
-

Planning materiality

- At the conclusion of the audit, we formulate our opinion on the consolidated financial statements of the City as to their fair presentation, in all material respects, in accordance with Canadian public sector accounting standards.
- Our estimation of planning materiality requires professional judgment and necessarily takes into account qualitative as well as quantitative considerations.
- Based on the 2019 operating budget, we estimate the materiality for the audit of the 2019 consolidated financial statements to be \$72.2M (\$71.0M in 2018), which represents 2% of budgeted operating expenditures for the year ended December 31, 2019 (2% of actual expenditures for 2018).
- The 2019 preliminary materiality level will be reviewed on an ongoing basis throughout our 2019 audit. Should actual results vary significantly from those budgeted, the materiality level may be adjusted in order to recognize this change in circumstances.
- Testing is performed at thresholds well below the audit materiality level in order to perform sufficient audit work to provide an opinion on the financial statements.

Our Audit Plan

Audit approach

Area	Comments
Our planned audit approach	
For purposes of the audit of the financial statements, our audit scope is developed after considering the inherent and control risks and the effectiveness of the organization's internal controls. A variety of factors are considered when establishing the audit scope including size, specific risks, the volumes and types of transactions processed, changes in the business environment, and other factors.	Using our cumulative knowledge of the City's business, including the results of audit procedures in prior years and the knowledge gained from the current year procedures completed to-date, we have established a preliminary strategy for placing reliance on controls related to the flows of certain transactions and/or significant processes.
We distinguish between the following strategies:	Based on our planning, our intention is to test and rely on controls in the following areas, in order to increase overall efficiency of the audit by reducing the nature, timing and/or extent of substantive procedures:
• Identify and evaluate controls (controls strategy) • Do not identify and evaluate controls (substantive strategy)	• IT General Controls (ITGCs): We plan to audit the IT general controls over the SAP and Markview systems in support of the financial statement audit of the City of Ottawa. Our procedures will include tests of change management, logical access, and IT operations. • Accounts payable, expenditures and payroll expense process (conducted on a rotational basis).
	Should the execution of our tests of controls result in exceptions, this may affect our planned reliance on such controls in conducting our year-end procedures. We will communicate to you any changes to our audit approach.
	We plan to integrate data analytics as part of our audit approach, through the use of our EY Helix suite of data analytics tools. Use of data analytics allows us to analyze greater quantities of data, enhance our understanding of the City's business and processes, design procedures that

Area	Comments
	are better targeted towards the risks, and deliver more value from our audit. We intend to apply data analytics techniques over tangible capital assets, user fees and municipal taxation revenues, as well as journal entry testing for management override. For the remaining significant accounts, we will take a substantive approach, as we believe this will result in a more efficient audit of the related accounts based on their nature.

Our Audit Plan

Audit timetable

The following timetable outlines key activities of our 2019 audit plan:

	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Scope and strategy											
Execution											
Conclusion and reporting											

Our Audit Plan

Areas of audit emphasis

Our audit procedures emphasize testing areas with the highest risk of misstatement (e.g., those accounts, contracts or transactions where we believe there is the greatest risk of material misstatement to the financial statements, whether due to error or fraud, including disclosure items). We consider the effects of current market risk factors on the City, and emphasis is also placed on those areas requiring difficult, subjective, or complex determinations by management with heightened professional skepticism. Accordingly, our audit procedures are planned to focus on the following areas:

- Revenue recognition
- Contingent liabilities
- Investments and financial instruments
- Employee benefit costs
- Tangible capital assets
- Commitments

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Revenue recognition	
<i>(PS 1200 - Financial Statement Presentation, PS 3100 - Restricted Assets and Revenues, PS 3410 - Government Transfers, PS 3510 - Tax Revenue)</i>	
• Taxation revenues are recorded in the period to which the assessment relates and reasonable estimates of amounts can be made. • Government transfers are recognized in revenue when they are authorized and when eligibility criteria have been met. Under certain circumstances, agreements may create a liability which is deferred until certain criteria 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 specified purpose(s). • Fees and user charges are recognized when the activity is performed or when the services are rendered.	• We will review the City's method for recognizing revenue and validate whether it is consistent with the prior year policy, the related accounting standards and industry practice. • We will walk through and update our understanding of the flow of transactions for taxation revenues, government transfer revenues, development charge revenues and fees and user charges revenues. • We will perform data analytics using the EY Helix suite of data analytics tools, which involves an in-depth analysis over the user fees and municipal taxation streams of revenue. • We will perform test of details over the revenue for government transfers and development charges and review the related contracts and agreements.

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Contingent Liabilities	
<i>(PS 3300 - Contingent Liabilities)</i>	
• 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 with legal counsel (in-house and/or external). Legal fees are generally expensed as incurred.	• We will perform a review of the contingent liabilities and assess management and legal counsel assumptions for each significant contingent liability identified. • We will confirm with both in-house and external legal counsel the completeness of the contingent liabilities reported by management.

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Investments	
<i>(PS 3040 - Portfolio Investments)</i>	
• The City values investments at amortized cost less amounts written off 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 other-than-temporary and, if so, recognize the other-than-temporary impairment in the statement of operations.	• We will conduct substantive procedures on the amortized cost of the investments and perform confirmation procedures in order to verify the current market value of the investments. • Any significant difference between the market value of the investments and their book value will be assessed for impairment to determine whether the decline in value is other-than-temporary.

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Employee benefit costs <i>(PS 3250 - Retirement Benefits, PS 3255 Post-employment benefits, compensated absences and termination benefits)</i>	
• The City's employee future benefits and pension agreements include the Ottawa-Carleton Regional Transit Commission Employees' Pension Plan, the City of Ottawa Superannuation Fund, WSIB, and other post-employment and post-retirement benefits. • The employee benefit liabilities and annual expense are determined by actuaries using assumptions (e.g., discount rate, wage rate changes, return on plan assets) established by the City's management. • The assumptions are based on the City's own experience and forecasts for various attributes. The highly sensitive discount rate for the employee future benefits, and pension agreements liability is determined by reference to the City's cost of borrowing or plan asset earnings.	• Our procedures include a review of the assumptions used by the City's actuaries as the assumptions are highly sensitive. • We will involve our internal actuaries to perform an assessment of the valuation reports. For each plan, we will review the 2019 valuation methodology and assumptions used by the actuaries and conclude as to whether the methodology used is in compliance with Canadian public sector accounting standards and we will assess whether the assumptions used are reasonable. • We will review the current pension obligation and pension asset for both pension plans and WSIB and we will review the post-employment obligations and assess whether the appropriate amounts have been recorded in accordance with PS 3250 and PS 3255.

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Tangible capital assets	
<i>(PS 3150 - Tangible Capital Assets)</i>	
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.	- We will walk through the tangible capital asset process to update our understanding of the capitalization process, including the accounting for the OLRT project and other significant agreements. - We will perform data analytics using the EY Helix suite of data analytics tools, which involves an in-depth analysis over the additions, transfers, disposals and amortization of tangible capital assets. This will include a review of the timing of when assets were put into or taken out of use, as well as the assumptions used for useful life and depreciation methods. - We will review the write-down analysis performed on the tangible capital assets balance when conditions indicate that a tangible capital asset no longer contributes to the City's ability to provide goods and services, or that the value of future economic benefits associated with the tangible capital asset is less than its net book value.

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Commitments	
<i>(PS 3390 - Contractual Obligations)</i>	
The City discloses significant contractual obligations in the notes to the financial statements.	We will continue to monitor the City's activities related to commitments which may require disclosure in the notes to the financial statements. In particular, we will obtain management and legal representations regarding any commitments entered into during the year.

Fraud considerations and risk of management override

We are responsible for planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error.

Our audit procedures will include: brainstorming, gathering information to facilitate the identification of fraud risks and performing procedures in the areas where fraud risks are identified including performing procedures required by our professional standards, designed to address the risk of management override (including examining journal entries, reviewing accounting estimates and evaluating the business rationale of significant unusual transactions).

We evaluate the risk of management override using the fraud triangle which includes rationalization, opportunity, and incentive and consider the actions management has taken to respond to those risks.

As a result of our audit planning activities, we have not identified any fraud risks aside from the presumed risk of management override. In response to this risk, we intend to leverage the use of our EY Helix suite of data analytics tools in examining journal entries.

Inquiries relating to matters relevant to the audit

We perform inquiries related to fraud and other matters to help inform our audit strategy and execution of our audit procedures. We would like to be informed of any matters of which you believe we should be aware, including, but not limited to:

- Your views about the risks of material misstatements due to fraud, including the risks of management override of controls
- Your knowledge of any actual, alleged or suspected fraud
- Your awareness of tips or complaints regarding the City's financial reporting (including those received through the audit committee's own "whistleblower" program, if any) and your response to such tips and complaints
- How you exercise oversight over the City's assessment of fraud risks and the establishment of controls to address these risks
- Your awareness of other matters, you believe, are relevant to the audit including, but not limited to, violations or possible violations of laws or regulations

When we identify a fraud risk, including a fraud risk that arises through or is associated with the risk of management override of controls, we perform audit procedures to address those risks. In addition to any specific responses related to the fraud risk, we also examine journal entries, review accounting estimates where there is significant judgment and complexity for management bias and evaluate the business rationale of significant unusual transactions as required by our professional standards.

Fair and transparent fees

	2019 estimated fees	2018 fees
Financial statement audits ⁽¹⁾	302,040	\$314,303
Other audit engagements ⁽²⁾	42,130	69,786
Non-audit engagements ⁽³⁾	9,120	155,448
Total	\$353,290	\$539,537

- (1) Includes fees and expenses related to the audit of the consolidated annual financial statements, subsidiaries, and employee benefit plans, notwithstanding when the fees and expenses were billed or when the services were rendered.
- (2) Includes fees and expenses related to other audit engagements, including municipal requirements, notwithstanding when the fees and expenses were billed or when the services were rendered.
- (3) Includes fees and expenses related to the non-audit engagements, notwithstanding when the fees and expenses were billed or when the services were rendered.

Thought leadership

EY is invested heavily in developing Thought Leadership to support our clients and their governance committees in achieving their goals. Articles developed by EY on topics of relevance to audit committees and boards can be found at the following links:

- https://www.ey.com/en_gl/board-matters
- https://www.ey.com/en_gl/what-we-think
- <https://www.ey.com/ca/en/industries/government---public-sector#Leadership>

The Audit Committee may find EY's Thought Leadership on digital transformation in the public sector of interest. These articles discuss how governments are moving towards a digital-based future, with a focus on the procurement process, and a discussion of the five overall critical areas where digital can be harnessed. The complete articles can be found at:

- [https://www.ey.com/Publication/vwLUAssets/Legacy-to-leading/\\$FILE/Legacy-to-leading.pdf](https://www.ey.com/Publication/vwLUAssets/Legacy-to-leading/$FILE/Legacy-to-leading.pdf)
- https://www.ey.com/en_gl/government-public-sector/how-does-digital-government-become-better-government

The EY Centre for Board Matters also publishes a number of articles about cybersecurity and its related risks. The following article provides perspectives and video recaps from interviews at the annual EY Cybersecurity Board Summit and may be of interest to you:

- https://www.ey.com/en_us/board-matters/how-to-enhance-cybersecurity-risk-oversight

The Audit Committee may also find EY's Thought Leadership on the Top Priorities for Boards in 2019 of particular interest. This article highlights the priorities EY anticipates will be top-of-mind for board members in 2019 and then further elaborates on each of the priorities and includes questions the audit committee and board might want to consider when providing oversight on new risks and opportunities. The top five priorities for 2019 include:

1. Embrace the duality of strategy
2. Transform the governance of risk management
3. Accelerate the talent agenda and activate culture as a strategic asset

4. Strengthen communication and engagement with stakeholders
5. Continue to enhance board performance

For reference, the complete article can be found at:

- https://www.ey.com/en_us/board-matters/what-boards-should-prioritize-in-2019

In addition, we have included, in Appendix A, a summary of developments in accounting standards provided by the Public Sector Accounting Board (PSAB).

We sincerely hope that you find the information of use in exercising your oversight role at the City of Ottawa.

Appendix A – Accounting and auditing developments

This summary of decisions of the Public Sector Accounting Board [“PSAB”] has been prepared for information purposes only. Decisions reported are tentative and reflect only the current status of discussions on projects, which might change after further deliberations by PSAB. Decisions to publish exposure draft and Handbook material are final only after a formal ballot process.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
Financial Reporting Developments:		
Restructuring Transactions (PS 3430)	In 2015, PSAB approved a new Handbook Section applicable to fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted. This new Section defines a restructuring transaction and establishes standards for recognizing and measuring assets and liabilities transferred in a restructuring transaction including the value at which both the transferor and transferee should record the impact of the transaction.	The new accounting standard needs to be implemented in the City’s financial statements in the fiscal year ending December 31, 2019. The City has performed an assessment and determined that there is limited impact of the new standard on the City’s financial statements. We will review the City’s position as part of our audit procedures.
Financial Instruments (PS 3450), Foreign Currency Translation (PS 2601), Portfolio Investments (PS	In March 2018, PSAB approved an extension of the effective date of Sections PS 3450, <i>Financial Instruments</i> , and PS 2601, <i>Foreign Currency Translation</i> , to fiscal years beginning on or after April 1, 2021. Narrow-scope amendments will be proposed for Section PS 3450 to	The City has begun to perform an assessment of the impact of these new standards on its consolidated financial statements. The new accounting

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
3041) and Financial Statement Presentation (PS 1201)	address certain non-hedge accounting issues raised during consultations. In December 2018, PSAB approved the Exposure Draft, "Financial Instruments - Narrow-scope Amendments." The exposure draft proposes to amend the guidance where a government purchases its own bonds from the open market. It also clarifies the transitional provisions Section PS 3450, Financial Instruments, to simplify the transition for governments and their consolidated entities. The Board will issue the exposure draft in January 2019, with a 90-day comment period.	standards need to be implemented in the City of Ottawa's financial statements in the fiscal year ending December 31, 2022, or earlier if deemed appropriate.
Asset Retirement Obligations	On March 9, 2017, PSAB proposed to issue a new Section on asset retirement obligations and withdraw <i>Solid Waste Landfill and Post-Closure Liability</i>, Section PS 3270. The new section will require entities to record asset retirement obligations. An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner. Asset retirement costs associated with an asset no longer in productive use are expensed. Subsequent measurement of the liability can result in either a change in the carrying amount of the	The City has begun to perform an assessment of the impact of this new standard on its consolidated financial statements. The new accounting standards need to be implemented in the City of Ottawa's financial statements in the fiscal year ending December 31, 2022, or earlier. Once received, we will review the City's assessment.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	related tangible capital asset, or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use. This new Section will be effective for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.	
Revenue (PS 3400)	PSAB recently issued a new Section on revenue (PS 3400) proposing a framework which includes two categories of revenue - exchange transactions or unilateral transactions. Revenue from an exchange transaction is recognized when the public sector entity has satisfied the performance obligation(s). If no performance obligation is present, it would be unilateral revenues. Unilateral revenues are recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim on economic resources. This new Section will be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.	The City will need to assess the impact of these new standards on its financial statements. The new accounting standards need to be implemented in the City's financial statements in the fiscal year ending December 31, 2023, or earlier if deemed appropriate. Once received, we will review the City's assessment.

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