Document 1

The City of Ottawa

2017 Financial Statement Audit Plan

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November 30, 2017

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 30, 2017. We will outline the scope of our services, identify the EY team that will perform the audit, and present the key considerations that will affect the 2017 audit.

The audit is designed to express an opinion on the 2017 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 2017 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,

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

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2017 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

Significant 2017 considerations	Audit timeline · We will perform our interim procedures during the months of September through January and our year-end procedures during the months of March through May. Refer to audit timetable included in this document. Audit scope and strategy · Our audit scope and strategy, including significant risks identified, for the 2017 audit is outlined in the “Areas of audit emphasis” section of this document.

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 2017 operating budget, we estimate the materiality for the audit of the 2017 consolidated financial statements to be $65.5M ($66.3M in 2016), which represents 2% of budgeted operating expenditures for the year ended December 31, 2017 (actual expenditures for 2016).
- The 2017 preliminary materiality level will be reviewed on an ongoing basis throughout our 2017 audit. Should actual results vary significantly from those budgeted, the materiality level may be adjusted in order to recognize this change in circumstances.

Our Audit Plan

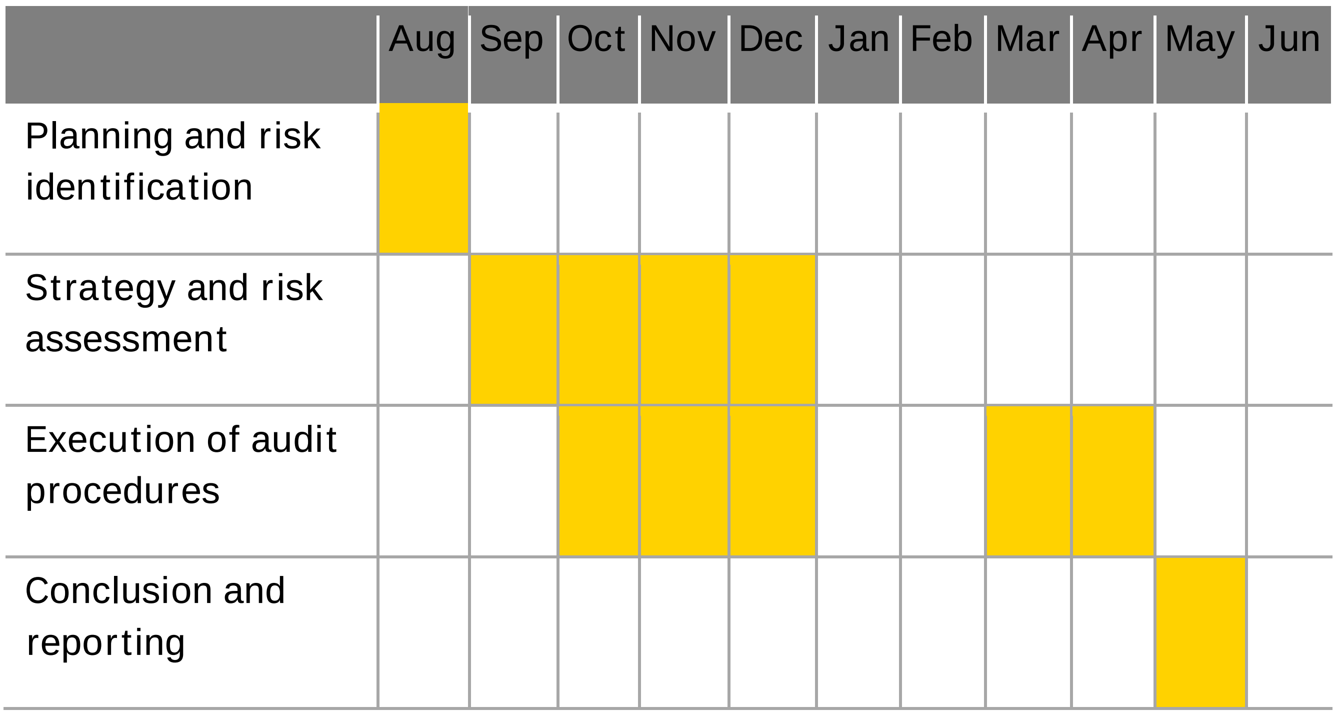
Audit approach

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. We distinguish between the following strategies: · Identify and evaluate controls (controls strategy) · Do not identify and evaluate controls (substantive strategy)	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. Based on our planning, our intention is to test and rely on controls over the following significant accounts, in order to increase overall efficiency of the audit by reducing the nature, timing and/or extent of substantive procedures: · IT General Controls (ITGCs): We plan to audit the IT general controls of 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. For the remaining significant accounts, we will take a substantive approach, as we believe that 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 2017 audit plan:



Our Audit Plan

Areas of audit emphasis

Our audit procedures emphasize testing areas with the highest risk of material misstatement (i.e. those accounts, contracts or transactions where we believe there is the greatest risk of material misstatement to the consolidated financial statements, whether due to error or fraud). We consider the effects of current risk factors on the City, and also place emphasis on those areas requiring subjective determinations by management. We will reassess our risk assessment and other internal and external factors influencing the City throughout our audit, and communicate to you any changes to our initial plan, as necessary. We have identified below our areas of audit emphasis, including areas with identified significant risks, as well as our related planned audit procedures:

- 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	
(PS 1200 - Financial Statement Presentation, PS 3100 - Restricted Assets and Revenues, PS 3410 - Government Transfers, PS 3510 - Tax Revenue)	
· 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).	· 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 and development charge revenues. · We will perform detailed analytics over recognized taxation revenues based on confirmations obtained from the Municipal Property Assessment Corporation (MPAC) and based on municipal tax rates as approved by City Council. · We will validate the revenue recorded as government transfers and development charges by performing test of details over a sample of transactions.

Our Audit Plan

Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
Contingent Liabilities	
(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 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	
(PS 3040 – Portfolio Investments)	
· 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	
(PS 3250 – Retirement Benefits, PS 3255 Post-employment benefits, compensated absences and termination 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 specialist as the assumptions are highly sensitive (specifically the discount rate assumption). · We will involve our internal actuaries to perform the assessment of the valuation reports. We will review the 2017 valuation methods and assumptions used by the actuaries and conclude as to whether the methods used were in compliance with Canadian public sector accounting standards and 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 determine that the appropriate amounts are 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	
(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.	· 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 substantive test of details 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 intend to leverage the use of EY data analytics tools to limit the amount of detailed testing (see Appendix C). · 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	
(PS 3390 – Contractual Obligations)	
· 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 EY data analytics tools in examining journal entries (see Appendix C).

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.

EY services

Fair and transparent fees

	2017 estimated fees	2016 actual fees
Audit fees(1)		
Audit of the financial statements	$406,200	$419,426

(1) Includes fees and expenses related to the audit of the consolidated annual results, subsidiaries, employee benefit plans and other municipal audit requirements, 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.

As the Cyberworld currently represents a significant and growing risk for organizations, we have included a summary of some of our Thought Leadership specifically related to this risk in Appendix C.

We have a number of other Thought Leadership documents on cyber risk and other topics of relevance to audit committees and boards which can be found at:

- http://www.ey.com/gl/en/issues/governance-and-reporting/center-for-board-matters
- https://betterworkingworld.ey.com/

In addition, due to the upcoming enhancements to the auditor's report under Canadian Auditing Standards, we have included an example of the new audit report for your reference. The new auditor's report will be effective for all audits for periods ending on or after December 15, 2018.

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

Appendix A – Timing of required communications with audit committees

	Communicate when event occurs	Communicate on a timely basis, at least annually
Our 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 audited 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
All 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	

Timing of required communications

	Communicate when event occurs	Communicate on a timely basis, at least annually
Fraud and illegal acts involving senior management and fraud and illegal acts that cause a material misstatement of the financial statements	X	
Other material written communications with, and representations sought from management		X
Communication of independence matters		X
Fees and related disclosures		X
Other findings or issues regarding the oversight of the financial reporting process	X	
Subsequent events		X
Related-party transactions		X
Other related matters as applicable		X

Appendix B – 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:		
Financial Instruments (PS 3450), Foreign Currency Translation (PS 2601), Portfolio Investments (PS 3041) and Financial Statement Presentation (PS 1201)	In 2015, PSAB approved an amendment to the transitional provisions of Section PS 2601, *Foreign Currency Translation*, and Section PS 3450, *Financial Instruments*, to extend the effective date to fiscal years beginning on or after April 1, 2019. In 2016, PSAB received a report on stakeholder consultations across the country. The consultation has resulted in better understanding by all parties of the issues with implementation of Section PS 2601, *Foreign Currency Translation,* and Section PS 3450, *Financial Instruments*. PSAB requested staff to develop a plan to address the technical issues identified in the consultation for PSAB's consideration at its December 2016 meeting. The Board received an update on the consultation at its June 2017 meeting and provided feedback to staff about next steps.	The City will need to assess the impact of these new standards 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, 2020, or earlier if deemed appropriate.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	In September 2017, the Board received an update on the project as well as the International Public Sector Accounting Standards Board's recently issued Exposure Draft 62, "Financial Instruments." The Board asked staff to continue outreach to stakeholders to promote understanding of the IPSASB's proposals. The Board also discussed the project timeline and requested that more information be provided in December 2017.	
Related Party Disclosures (PS 2200) and Inter-entity Transactions (PS 3420)	In 2015, PSAB approved two new Handbook Sections – *Related Party Disclosures and Inter-entity Transactions.* The new standards are applicable to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted. The new Related Party Disclosures standard requires disclosure of information about related party transactions and the relationship underlying them when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements. The new Inter-entity Transactions section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and	The City will need to assess the impact of these new standards 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, 2018, or earlier if deemed appropriate.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	recipient perspective. The main features of the new section are: • Under a policy of cost allocation, revenues and expenses are recognized on a gross basis. • Transactions are measured at the carrying amount, except in specific circumstances. • A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice. • The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.	
Assets (PS 3210), Contingent Assets (PS 3320), and Contractual Rights (PS 3380)	In 2015, PSAS approved three new Handbook Sections – *Assets, Contingent Assets, and Contractual Rights.* The new standards are applicable to fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted. The new standards provide the following updated disclosure requirements: • Disclosure of information about the major categories of assets that are not recognized is required. When an asset is not recognized because a reasonable estimate of the amount	The City will need to assess the impact of these new standards 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, 2018, or earlier if deemed appropriate.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	involved cannot be made, the reason(s) for this should be disclosed. • Disclosure of information about contingent assets is required when the occurrence of the confirming future event is likely. • Disclosure of information about contractual rights is required including description about their nature and extent and the timing.	
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. The main features of the new section are as follows: • A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities without consideration based primarily on the fair value of the individual assets and individual liabilities transferred. • The net effect of a restructuring transaction should be recognized as revenue or as an expense by entities involved.	The City will need to assess 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, 2019, or earlier if deemed appropriate.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	• A recipient should recognize individual assets and liabilities received in a restructuring transaction at their carrying amount with applicable adjustments at the restructuring date. • A transferor and a recipient should not restate their financial position or results of operations. • A transferor and a recipient should disclose sufficient information to enable users to assess the nature and financial effects of a restructuring transaction on their financial position and operations.	
Asset Retirement Obligations	On March 9, 2017, PSAB proposed to issue a new Section on asset retirement obligations and withdraw *Solid Waste Landfill and Post-Closure Liability*, Section PS 3270. The main features of the Exposure Draft include: • 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.	If approved, the City will need to assess 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 if deemed appropriate.

<table>
<tr><th>Accounting and auditing developments</th><th>Summary</th><th>Effect on the City of Ottawa consolidated financial statements</th></tr>
<tr><td></td><td>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 related tangible capital asset, or an expense, depending on the nature of the re-measurement and whether the asset remains in productive use.
Asset retirement obligations include post-retirement operation, maintenance and monitoring.
A present value technique is often the best method with which to estimate the liability.
The new Section would apply to fiscal years beginning on or after 1 April 2021, with early adopted permitted.</td><td></td></tr>
<tr><td>Employee Benefits – Deferral Provisions (PS 3250, PS 3255)</td><td>In November 2016, the PSAB issued an Invitation to Comment related to the review of the deferral provisions in the PSAB’s standards on employment benefits. The Public Sector Accounting Standards Handbook still allows the deferral and amortization of actuarial gains and losses over the average remaining service period of active employees, while other handbook sections have moved to immediate recognition. While this will be an area for review, a large focus of this project will also be put on new types of plans (shared risk plans) that have developed over the last couple of years not</td><td></td></tr>
</table>

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	contemplated by the current handbook section. In September 2017, The Board approved the Invitation to Comment, "Employment Benefits: Discount Rate Guidance in Section PS 3250." The Board expects to issue the document in November 2017. The Board also discussed the guidance for discount rates found in the CPA Canada Public Sector Accounting Handbook as well as recent proposals. In an effort to ensure a consistent approach to providing discount rate guidance in our standards, the Board asked staff to outline possible approaches for addressing discount rates for future projects in December 2017.	
Revenue (PS 3400)	On May 1, 2017, PSAB issued an Exposure Draft that proposes the issuance of a new Section on revenue (PS 3400) which would be applicable for fiscal years beginning on or after April 1, 2021. The main features of the Exposure Draft include: • A framework for revenue is proposed describing two categories of revenue – exchange transactions or unilateral transactions. • If the transaction gives rise to one or more performance obligations, it would be an exchange transaction. • Performance obligations are enforceable promises to provide goods or services to a payor as a result of exchange transactions.	If approved, the City will need to assess 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 if deemed appropriate.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	• Revenue from an exchange transaction is recognized when the public sector entity has satisfied the performance obligation(s). • The performance obligation(s) may be satisfied at a point in time or over a period of time. • If no performance obligation is present, it would be unilateral revenues. • Unilateral revenues result in increases in the economic resources of a public sector entity without a direct transfer of goods or services to the payor. • 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.	
Other PSAB Projects:		
Public Private Partnerships	The Board approved a Statement of Principles, “Public Private Partnerships.” The document was issued in July 2017 and comments were due in October 2017.	
Concepts Underlying Financial Performance	PSAB discussed a draft recognition and measurement chapter of a statement of principles and provided feedback to its task force. The Board discussed the elements of financial statements and provided feedback to its task force.	

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
	The Board discussed the financial statement foundations and financial statement objectives, as well as a revised reporting model. In particular, the Board discussed the concept of control and service capacity, and considered improvements to the financial statement objectives. The Board also considered a number of illustrative financial statements to help visualize how the proposed reporting model would look for different types of public sector entities.	
International Strategy	The Board approved a project proposal for reviewing PSAB's approach to International Public Sector Accounting Standards. The project proposal sets out the process to achieve the goal as outlined in the 2017-2020 Strategic Plan of developing and communicating options by 2020.	

Appendix C - Thought leadership

Cyber Risk – What should you consider?

Evolving effects of cyber risk

- The frequency and severity of cyber attacks are continuing to increase.
- Cybersecurity is not just an "IT issue" or a matter that results only in information loss:
  - It affects an entity's reputation and has resulted in theft of protected or sensitive information (e.g., intellectual property, credit card information, personally identifiable information [PII]) and disruption of computer-controlled operations or access to online systems, and can require significant financial costs to remediate the breach.
  - It is a broad business risk affecting most entities.
- As these attacks continue to evolve, so will their effect on the organization as a whole.
  - While many of the recent, highly publicized attacks/breaches do not appear to have been directly targeted at financial systems, the access gained by the attackers provided them the ability to:
    - Manipulate or modify financial records, such as billing/cost/ interest rates
    - Modify key automated business rules
    - Modify automated controls relied upon by management.

What to look for

Leading governance committees and boards expect regular (e.g., quarterly) updates from management on information security and cyber threat intelligence that is both meaningful and actionable. The report should address the following:

- Identification. Which are the top three to five threats that are most relevant to the organization?
- Protection. Summarize the actions taken to manage these threats. Summarize what other actions management considered, but elected not to pursue.
- Detection. What mechanisms are being used to detect incidents? How does management evaluate and categorize incidents identified and determine which to elevate to senior leadership? What activity has been seen since the last report?
- Response and recovery. How did the organization respond to higher risk incidents?

Questions for Audit Committee members to consider in their oversight role

- How are the organization's most critical information assets protected and have the related cyber risks been prioritized?
- Are incident response plans in place in your organizations should a material cybersecurity breach occur? Has management practiced its incident response plan and developed a crisis management plan for cyber breaches?
- Has the committee and Council considered the talent implications and re-evaluated the expertise level at the organizational and governance level to manage cybersecurity risk?
- Does Council understand the insurance coverage in place and its impact on potential claims?
- How are employees trained and made aware of their role in managing cybersecurity risks? Are internal threats appropriately considered?

Data Analytics

Topic summary

Companies are investing heavily in people, processes and technology to analyze “big data” – including vast amounts of financial data. Audit committees are expecting auditors to leverage their investment in analytics by challenging traditional audit procedures and providing more relevant business insights. The effective use of analytics can bring confidence, transparency and perspective for a higher quality audit.

Impact of analytics on the audit

EY Helix, our suite of analytics, enables us to deliver a high quality audit by:

- Allowing us a deeper understanding of your business by analyzing larger populations of audit relevant data, to present a fuller picture of what happened and identify relevant risks.
- Identifying trends and anomalies in your processes to help direct our audit efforts in the right areas.
- Using complete data populations to obtain higher quality audit evidence within areas of higher risk.
- Delivering relevant feedback and insights during the audit, so you can optimize your business processes and controls.
- Saving the organization valuable time and effort through our repeatable data capture process using globally-integrated data extraction tools and processes.

Keys to a successful integration of analytics

The first step in ensuring the effective use of analytics is to get the data. Although we have built data capture competency within our audit practice, system and data challenges mean fully embedding audit analytics may not be immediate. We will work with management and your IT organization to streamline the data capture process as follows:

- Commitment from management to support the planned data capture and analysis strategy
- Confirmation that the right people from finance and IT are available to provide approval and access rights for data extraction
- Support in creating an efficient, repeatable data capture process as quickly as possible to allow for the use of analytics throughout the audit

Relevant materials are available on the Center for Board Matters (www.ey.com/boardmatters)

Big data and analytics in the audit process: mitigating risk and unlocking value – In just the last few years, the terms “big data” and “analytics” have become hot topics in management meetings and on governance committees around the world. This article helps members of governance understand the complexities and have a grasp of the issues surrounding these technology trends.

Adoption of new auditor's reports

AASB and PCAOB approve new standards

July 2017

What you need to know

- The Auditing and Assurance Standards Board (AASB) approved a package of standards, effective in 2018, dealing with auditor reporting, and reporting and responsibilities relating to other information.
- The new audit report is required for December 2018 year-ends, with earlier adoption permitted.
- Key audit matter (KAM) reporting is optional unless required by law or regulation.
- The AASB is currently considering the PCAOB final auditor reporting standard and monitoring SEC approval status. An announcement following SEC approval is expected.
- Work is currently progressing to draft a single auditor's report that will aim to comply with both Canadian and PCAOB auditing standards.

Overview

In April 2017, the AASB adopted International Auditing Standards (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) as Canadian Auditing Standards (CAS) dealing with:

- Auditor reporting
- Changes to performance standards with respect to going concern
- Changes to address the audit of financial statement disclosures
- Reporting and other responsibilities relating to other information included in an entity's annual report

Adopted by more than 110 countries, the new auditor's report represents a step change in the information content of the report. It better describes what an audit is and what an auditor does, including an ability to provide transparency in the reporting of key audit matters (KAM).

The new auditor's report will be effective for all audits for periods ending on or after 15 December 2018, with earlier adoption permitted. The IAASB's effective date for these standards was for periods ending on or after 15 December 2016. Accordingly, auditors conducting audits of financial statements in accordance with the CAS for periods ending on or after 15 December 2016 should not represent compliance with the ISA unless they have complied with the respective ISA issued by the IAASB.

In June 2017, the U.S. Public Company Accounting Oversight Board (PCAOB) also announced the adoption of a final auditing standard to significantly change the auditor's report. Key differences between the new AASB audit reporting standard and the PCAOB standard are highlighted on page 3.

Building a better working world

Enhancements to the auditor's report under the Canadian standard

All entities

Enhancements made to the new auditor's report, which are applicable for all entities:

- The format of the report has changed, with the opinion presented at the beginning of the report, followed by the basis for opinion.
- The new auditor's report contains an affirmative statement of independence and fulfillment of relevant ethical responsibilities.
- A description of management's and auditor's responsibilities relating to going concern is required, and a separate dedicated section related to material uncertainty is required when a material uncertainty exists.
- The new auditor's report discloses identification of those charged with governance (TCWG) within the management's responsibilities section.
- There is an expanded description of auditor's responsibilities, including key features of an audit.
- For all entities with "other information," such as an annual report, disclosure of other information that the auditor is required to read but which the auditor has not yet received at the date of the auditor's report is required.

Listed entities

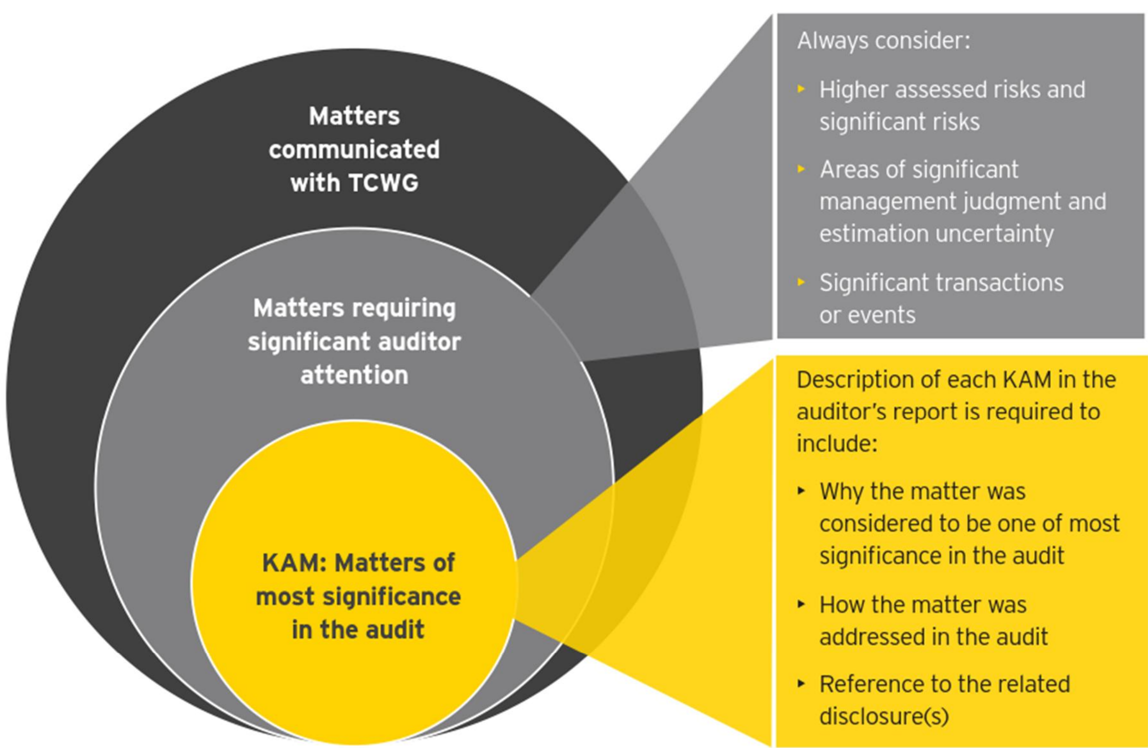
Beyond those enhancements noted for all entities, the following are enhancements applicable to listed entities:

- Disclosure of the name of the engagement partner is required.
- There is a new section in the auditor reporting standard addressing KAM, which are those matters that were considered to be of most significance in the audit of the current period. Disclosure of KAM will be optional under the Canadian standard unless required by law or regulation.

Key audit matters *[Optional]*

A significant change that introduces a new level of transparency into the audit process in the new standards is the introduction of KAM. The final reporting standards, as adopted, do not contain a KAM reporting requirement at this time. However, they do allow for law or regulation to require reporting of KAM and for the auditor to decide to do so.

KAM are defined as: "Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. KAM are selected from matters communicated with those charged with governance."



Key differences between auditing standards adopted by the AASB and the PCAOB

On 1 June 2017, the PCAOB adopted a new auditor reporting standard: T*he Auditor's Report on an Audit of Financial Statements when the Auditor Expresses an Unqualified Opinion*. This new auditing standard is subject to approval by the U.S. Securities and Exchange Commission (SEC).

The standard requires auditors to add information about auditor tenure, clarify the language about the auditor's responsibilities, and change the organization and format of the auditor's report. Those requirements are effective for annual periods ending on or after 15 December 2017. In 2015, the PCAOB approved a standard that requires the disclosure of the audit engagement partner and certain other participants in the audit in a new form (Form AP). The disclosure of the engagement partner is required for reports issued on or after 31 January 2017, while the disclosure of other participants is required in reports issued on or after 30 June 2017.

The standard also requires auditors to include in the auditor's report information about matters that they communicated or were required to communicate to the audit committee that relate to material accounts or disclosures and involved especially challenging, subjective or complex auditor judgment. These are known as critical audit matters (CAM). The framework for determining CAM is substantially similar to the framework for determining KAM and starts with those matters communicated or required to be communicated to the audit committee.

CAM reporting requirements are effective for annual periods ending on or after 30 June 2019 for large accelerated filers and on or after 15 December 2020 for all other filers (with certain exceptions, such as securities brokers and dealers that are not issuers, certain investment companies, employee stock purchase, savings and similar plans, and emerging growth companies).

The key differences between the AASB reporting standards and the PCAOB standards are:

- **The PCAOB standard will require all entities that conduct their audits under PCAOB standards to report CAM in their auditor's report, whereas KAM are optional under the final AASB standard unless required by law or regulation.**
- **Except for the CAM reporting requirement, the PCAOB standard is effective for entities for periods ending on or after 15 December 2017 and the AASB reporting standard is effective on or after 15 December 2018.**
- **The PCAOB standard requires the auditor's report to disclose the tenure of the audit firm, which is not a requirement under the AASB reporting standard.**
- **The AASB standard requires the auditor's report to disclose the name of the audit engagement partner for audits of listed entities, whereas the PCAOB requires audit firms to file a Form AP with the PCAOB that names the audit engagement partner (i.e., the partner with primary responsibility for the audit) and discloses information about certain accounting firms that participated in the audit. The form is available to the public on the PCAOB website.**

What's next?

Significant efforts will be required to implement the enhanced auditor's reporting standards. Management, TCWG, and the auditors should align their goal of improving communications so as to ensure smooth implementation in 2018 calendar-year audits. For those entities that are subject to the PCAOB standard or ISA, the auditors, management, and TCWG should consider the unique requirements that are in effect for their upcoming audits.

The AASB is considering the final PCAOB standard and monitoring SEC approval status. Given the AASB objective of adopting the ISA, we expect that the AASB will take some action following SEC approval of the PCAOB standard, expected in fall 2017. We expect that this will entail the auditors of some population of larger Canadian listed entities being required to apply KAM reporting on a similar timeline as the CAM reporting requirement under the PCAOB standards.

The AASB has indicated that it will continue to study the issue of the applicability and timing of KAM reporting applying to the smallest listed entities. The AASB has communicated that it will take additional time to further assess this.

At the same time, there is a task force working on how the current and future Canadian auditor's report can be harmonized with the new US auditor's report to allow companies to continue to issue a single auditor's report meeting Canadian and US standards.

While this process has not been concluded, companies that have issued a report under Canadian and US standards in the past should plan to continue to do so as the working group works to bring this process to conclusion.

The AASB is working directly with the Australian standard setter to study their experience in implementing the new auditor reporting standards, particularly with respect to smaller listed entities. They will review experience gained in Canada by those who apply KAM reporting in accordance with law or regulation, as well as those who apply this reporting voluntarily. The IAASB is also scheduled to conduct a post-implementation review on auditor reporting.

Insights gained from these activities will guide the AASB in future deliberations on this additional level of transparency in the auditor's report.

Illustrative example

[This illustration of the revised auditor's report is extracted from CAS 700, ***Forming An Opinion and Reporting on Financial Statements***]

Enhancements to the Auditor's Report

Independent auditor's report

To the Shareholders of
ABC Company [or Other Appropriate Addressee]

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **ABC Company** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 20x1, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the consolidated financial position of the Group as at December 31, 20x1, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

> Opinion first. The auditor's opinion – the "pass/fail" statement that users have said they continue to value – is required to be positioned at the beginning of the report, followed by the Basis for Opinion.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

> Basis for Opinion section is required. Currently only required when the auditor's report was modified.
>
> New affirmative statement about the auditor's fulfilment of independence and other relevant ethical responsibilities and requirements.

(For listed entities) Key Audit Matters *(OPTIONAL)*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

[Description of each key audit matter is in accordance with CAS 701, *Communicating Key Audit Matters in the Independent Auditor's Report*]

> The new KAM section is currently optional unless required by law or regulation.

Other Information [or another title if appropriate, such as "Information Other than the Consolidated Financial Statements and Auditor's Report Thereon"]

Management is responsible for the other information. The other information comprises the [information included in the "Annual Report" (as defined in CAS 720), but does not include the financial statements and our auditor's report thereon.]

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. [We have nothing to report in this regard [or a statement that describes any material misstatement of the other information].

> A separate section relating to other information is required under revised CAS 720, *The Auditor's Responsibilities Relating to Other Information*.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

(Because of the increased length of this section, CAS 700 includes a provision that certain components of the following description of the auditor's responsibilities section may be presented in an appendix to the auditor's report or, where law, regulation, or national auditing standards expressly permit, by reference to a website of an appropriate authority.)

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

Enhancements to the Auditor's Report

New description of management's responsibilities relating to going concern. Intended to reflect the requirements of the applicable financial reporting framework.

Identification of TCWG is required when a separate body exists that is responsible for oversight of the financial reporting process (in many cases, the audit committee). When individuals responsible for such oversight are also responsible for the preparation of the financial statements, no reference to oversight responsibilities is required.

Expanded description of the auditor's responsibilities, including key features of the audit. The auditor's responsibility section is intended to explain more fully the concept of a risk-based audit, as well as to clarify the meaning of certain audit-technical terms. This approach results in a more lengthy description of the auditor's responsibilities in relation to specific matters, including fraud, internal control, accounting policies and estimates, evaluating the overall presentation, structure and content of the financial statements and disclosures, group audits and communications with TCWG.

New descriptions of responsibilities relating to going concern. Reflects responsibilities under CAS 570, which are required regardless of the applicable financial reporting framework.

- Evaluate the overall presentation, structure, and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(For listed entities) We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

(For listed entities) ***(OPTIONAL UNLESS REQUIRED BY LAW OR REGULATION)***
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements
(The form and content of this section of the auditor's report would vary depending on the nature of the auditor's other reporting responsibilities prescribed by local law, regulation, or national auditing standards. The matters addressed by other law, regulation, or national auditing standards (referred to as "other reporting responsibilities") shall be addressed within this section unless the other reporting responsibilities address the same topics as those presented under the reporting responsibilities required by the CAS as part of the Report on the Audit of the Consolidated Financial Statements section. The reporting of other reporting responsibilities that address the same topics as those required by the CAS may be combined (i.e., included in the Report on the Audit of the Consolidated Financial Statements section under the appropriate subheadings) provided that the wording in the auditor's report clearly differentiates the other reporting responsibilities from the reporting that is required by the CAS where such a difference exists.)

The engagement partner on the audit resulting in this independent auditor's report is [name].

Disclosure of the name of engagement partner for audits of listed entities.

Already a common practice in many jurisdictions, the name of the engagement partner is now included in auditor's reports under the CAS, but is only required for audits of listed entities.

[Signature in the name of the audit firm, the personal name of the auditor, or both, as appropriate for the particular jurisdiction]

[Auditor address]

[Date]

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