

# **The City of Ottawa**

2021 Financial Statement Audit Plan

Ernst & Young LLP  
Chartered Professional Accountants  
99 Bank Street, Suite 1200  
Ottawa, ON K1P 6B9  
Tel: +1 613 232 1511  
Fax: +1 613 232 5324  
www.ey.com

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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 December 3, 2021. 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 2021 audit.

The audit is designed to express an opinion on the 2021 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 2021 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,



Chartered Professional Accountants  
Licensed Public Accountants

Mita Meyers, CPA, CA  
Engagement Partner  
(613) 598-4376

Suzanne Gignac, FCPA, FCA, CPA (Illinois)  
Engagement Quality Review Partner  
(613) 598-4376

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# 2021 EY services

## Services and Deliverables

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### Audit and audit - related services

- Express an opinion, and report to the Audit Committee on the results of our audits of:
  - The consolidated financial statements of the City of Ottawa, in accordance with Canadian public sector accounting standards
  - 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.

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### Other Services

- Perform translation of the French consolidated financial statements.

# Executive Summary

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## 2021 considerations

### Audit strategy

- Our audit strategy is risk-based and our areas of audit emphasis for the 2021 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 \$108.6M and is based on 2.75% of the 2021 budgeted operating expenditures.

### Audit timeline

- We will perform our interim procedures during the months of October 2021 through January 2022 and our year-end procedures during the months of April and May 2022.

### Audit team

- The audit team will be led by Mita Meyers as the engagement partner, supported by Suzie Gignac as Engagement Quality Reviewer and Lisa Godin as senior manager.

### Independence

- We are independent and have extensive quality control and conflict checking processes in place to maintain our independence.
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## 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 considers qualitative as well as quantitative considerations.
- Based on the 2021 operating budget, we estimate the materiality for the audit of the 2021 consolidated financial statements to be \$108.6M, which represents 2.75% of budgeted operating expenditures for the year ended December 31, 2021.
- After setting materiality, we also calculate performance materiality which is set to reduce to an appropriately low level, the probability that the aggregate of uncorrected/undetected misstatement exceeds materiality in a particular account or in the consolidated financial statements as a whole.
- Based on our understanding of the City, we would anticipate setting performance materiality at 75% of materiality or \$81.4M.
- The 2021 preliminary materiality level will be reviewed on an ongoing basis throughout our 2021 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
<b>Our planned audit approach</b>	
<p>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.</p>	<p>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.</p> <p>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:</p>
<p>We distinguish between the following strategies:</p> <ul style="list-style-type: none"> <li>• Identify and evaluate controls (controls strategy)</li> <li>• Do not identify and evaluate controls (substantive strategy)</li> </ul>	<ul style="list-style-type: none"> <li>• IT General Controls (ITGCs): We plan to audit the IT general controls related to the SAP system 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.</li> <li>• Accounts payable, expenditures, cash disbursements process.</li> <li>• Payroll process.</li> </ul>
	<p>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.</p>

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**Area****Comments**

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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 are better targeted towards the risks, and deliver more value from our audit. We intend to apply data analytics techniques over journal entry testing for management override and any accounts where data analysis will provide insightful audit results.

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.

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# Our Audit Plan

## Audit timetable

The following timetable outlines key activities of our 2021 audit plan:

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

# 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 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:

- Impact of COVID-19
- Revenue recognition
- Contingent liabilities
- Investments
- Employee benefit costs
- Tangible capital assets
- Commitments

# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<p><b>Impact of COVID-19</b></p> <ul style="list-style-type: none"> <li>The COVID-19 pandemic has continued to disrupt operations and will impact accounting and audit considerations.</li> <li>Other levels of government have provided significant funding to municipalities to assist with increased costs and revenue shortfalls during COVID-19.</li> </ul>	<ul style="list-style-type: none"> <li>We will assess the ongoing impact of COVID-19 on the consolidated financial statements; in particular, in areas related to estimates and valuations.</li> <li>We will tailor the extent, nature, and timing of our procedures on the financial statement accounts and related financial statement disclosures impacted by COVID-19.</li> <li>We will consider the guidance issued by the Public Sector Standards Board (PSAB) of <i>Application of Public Sector Accounting Standards (PSAS) to COVID-19-related financial reporting issues</i> as we perform our audit of the City’s financial statements.</li> </ul>

# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<b>Revenue recognition</b> <i>(PS 1200 - Financial Statement Presentation, PS 3100 - Restricted Assets and Revenues, PS 3410 - Government Transfers, PS 3510 - Tax Revenue)</i>	
<ul style="list-style-type: none"> <li>• Taxation revenues are recorded in the period to which the assessment relates, and reasonable estimates of amounts can be made.</li> <li>• 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.</li> <li>• 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).</li> <li>• Fees and user charges are recognized when the activity is performed or when the services are rendered.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• We will substantively test the property tax revenue by confirming the property tax calculation inputs with the Municipal Property Assessment Corporation ("MPAC") and reperforming the calculation.</li> <li>• We will perform substantive analytical procedures over the water and sewer user fees and general taxation revenues.</li> <li>• We will perform test of details, on a sample basis, over the revenue for remissions, supplementary assessments, payments in lieu of taxes, user fees, government transfers and development charges, and review new contracts and agreements.</li> </ul>

# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<b>Contingent Liabilities</b>	
<i>(PS 3300 - Contingent Liabilities)</i>	
<ul style="list-style-type: none"><li>• Accruals are recorded for regulatory and legal proceedings that arise in the ordinary course of business when likely and subject to reasonable estimation.</li><li>• Many factors are considered in assessing 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.</li></ul>	<ul style="list-style-type: none"><li>• We will walk through the contingent liability identification and recognition process to update our understanding of the process.</li><li>• We will perform a review of the contingent liabilities and assess assumptions used by management and legal counsel for each significant contingent liability.</li><li>• We will confirm the completeness of the contingent liabilities reported by management with both in-house and external legal counsel.</li><li>• We will perform a lookback assessment of the reserve balance for claims that have been settled after year-end to validate the valuation of the provision.</li></ul>

# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<b>Investments</b>	
<i>(PS 3040 - Portfolio Investments)</i>	
<ul style="list-style-type: none"><li>• The City values investments at amortized cost less amounts written off to reflect a permanent decline in value.</li><li>• 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.</li></ul>	<ul style="list-style-type: none"><li>• We will conduct substantive procedures to recalculate the amortized cost of the investments and perform a test of details over a sample of investments by agreeing their fair market value to our internal investment security pricing.</li><li>• We will perform confirmation procedures in order to validate the existence and ownership of the portfolio investments.</li><li>• 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.</li><li>• We will review the Statement of Compliance report from the investment service provider and consider the impact of any control deficiencies on our audit procedures.</li><li>• We will ensure the financial statement presentation and disclosure requirements with respect to investments are in accordance with public sector accounting standards.</li></ul>

# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<b>Employee benefit costs</b> <i>(PS 3250 - Retirement Benefits, PS 3255 Post-employment benefits, compensated absences, and termination benefits)</i>	
<ul style="list-style-type: none"> <li>• 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, Workplace Safety Inspection Board (WSIB), and other post-employment and post-retirement benefits.</li> <li>• 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.</li> <li>• 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 liabilities is determined by reference to the City’s cost of borrowing or plan asset earnings.</li> </ul>	<ul style="list-style-type: none"> <li>• We will walk through and update our understanding of the flow of transactions for the employee future benefits process.</li> <li>• For each plan, we will review the 2021 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.</li> <li>• We will involve our internal actuaries to perform an assessment of the valuation reports.</li> <li>• We will review the current pension obligation and pension asset for both pension plans and WSIB and the post-employment and post-retirement obligations and assess whether the appropriate amounts have been recorded in accordance with Canadian public sector accounting standards.</li> <li>• We will perform testing on the underlying data used by management’s experts in the valuations of employee future benefits.</li> </ul>

# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<p><b>Tangible capital assets</b>  <i>(PS 3150 - Tangible Capital Assets)</i></p>	
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• We will walk through the tangible capital asset process to update our understanding of the capitalization process, including the accounting for the Ottawa Light Rail Transit (OLRT) project and other significant agreements.</li> <li>• We will perform substantive testing over the additions and disposals of tangible capital assets during the year, as well as transfers of assets under construction to in-service 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 take a combined approach, using analytics for insights where appropriate and performing test of details for substantive evidence.</li> <li>• We will review the write-down analysis performed by management 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.</li> </ul>



# Our Audit Plan

## Areas of audit emphasis

Area of emphasis	Summary of planned audit procedures
<b>Commitments</b>	
<i>(PS 3390 - Contractual Obligations)</i>	
<ul style="list-style-type: none"><li>The City discloses significant contractual obligations in the notes to the financial statements.</li></ul>	<ul style="list-style-type: none"><li>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's representations regarding any commitments entered into during the year.</li><li>We will conduct substantive testing over a sample of disclosed balances by tracing to the supporting contracts in order to verify the future obligation remaining at year-end.</li></ul>

## 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. In this area, EY has developed a data analytic tool, the GL Analyzer, which we use to examine journal entries for unusual transactions, which may include transactions entered into by unexpected individuals or at unexpected times of day. EY has invested heavily in data analytic tools which we intend to leverage in examining journal entry testing in the City's financial system.

## Fair and transparent fees

	2021 estimated fees	2020 actual fees*
Financial statement audits	\$313,965	\$354,634
Other audit engagements	51,050	49,900
Non-audit engagements	12,100	11,900
Total	\$377,115	\$416,434

\* 2020 actual fees represent fees that have been billed to date for the 2020 financial statement audits, other audit engagements and non-audit engagements.

## 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/board-matters)
- [https://www.ey.com/en\\_gl/what-we-think](https://www.ey.com/en_gl/what-we-think)
- [https://www.ey.com/en\\_gl/government-public-sector](https://www.ey.com/en_gl/government-public-sector)

EY's Thought Leadership practice published an article on the rising cybersecurity risks unleashed by COVID-19. A survey of executives noted that COVID-19 forced organizations to bypass cybersecurity processes, while a rise in cyber attacks has occurred over the last 12 months. The article concludes on what steps an organization can take to better support their resiliency in the face of the rising cybersecurity risks. Additionally, we have included a link to our 2021 Global Board Risk Survey which reveals the views of 510 global board directors across a number of industries and what risks they expect to face.

The complete articles can be found at:

- [https://www.ey.com/en\\_gl/cybersecurity/cybersecurity-how-do-you-rise-above-the-waves-of-a-perfect-storm](https://www.ey.com/en_gl/cybersecurity/cybersecurity-how-do-you-rise-above-the-waves-of-a-perfect-storm)
- [https://www.ey.com/en\\_gl/global-board-risk-survey](https://www.ey.com/en_gl/global-board-risk-survey)

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
<b>Financial Reporting Developments:</b>		
<b>Financial Instruments (PS 3450), Foreign Currency Translation (PS 2601), Portfolio Investments (PS 3041) and Financial Statement Presentation (PS 1201)</b>	In 2020, in response to COVID-19, the adoption period for these standards has been deferred to fiscal periods beginning on or after April 1, 2022.	The new accounting standards need to be implemented in the City of Ottawa financial statements in the fiscal year ending December 31, 2023, or earlier if deemed appropriate.
<b>Asset Retirement Obligations (PS 3280)</b>	In 2020, in response to COVID-19, the adoption period for this standard was deferred to be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.	The new accounting standards need to be implemented in the City of Ottawa's financial statements in the fiscal year ending December 31, 2023, or earlier.
<b>Revenue (PS 3400), Purchased Intangibles (PSG-8), and Public Private Partnerships (PS 3160)</b>	In 2020, in response to COVID-19, the adoption period for these standards was deferred to be effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted.	The new accounting standards need to be implemented in the City's financial statements in the fiscal year ending December 31, 2024, or earlier if deemed appropriate.

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
<p><b>Adoption of International Public Sector Accounting Standards (IPSAS)</b></p>	<p>At its May 5, 2020 meeting, PSAB voted to adapt IPSAS principles when developing future standards. The implementation date of this decision is April 1, 2021. All standards projects initiated on or after this date, will use the principles of IPSAS in the development of the PSAS standard, if a similar IPSAS already exists. In cases where a similar IPSAS does not exist, PSAS standards would continue to be developed as they are today.</p>	<p>This decision will impact the future development of standards and hence their potential impact on the City's financial statements.</p>
<p><b>Employee Benefits (PS 3251)</b></p>	<p>At its March 25, 2021 meeting, PSAB approved the exposure draft "<i>Employee Benefits, Proposed Section PS 3251</i>" and the accompanying Basis for Conclusions. It was issued on July 28, 2021 with a comment deadline of November 25, 2021.</p> <p>This project will look at issues such as deferral of experience gains and losses, discount rates, how to account for shared risk plans, multi-employer defined benefit plans and vested sick leave benefits. Other improvements to existing guidance will also be considered.</p>	<p>Management will need to consider the implication of this new standard on the City's financial statements once finalized and issued by PSAB.</p>

Accounting and auditing developments	Summary	Effect on the City of Ottawa consolidated financial statements
<p><b>Concepts Underlying Financial Performance project</b></p>	<p>In September 2020, PSAB approved four exposure drafts (<i>The Conceptual Framework for Financial Reporting in the Public Sector, Consequential Amendments Arising from the Proposed Conceptual Framework, Financial Statement Presentation, Proposed Section PS 1202 and Consequential Amendments Arising from Financial Statement Presentation, Proposed Section PS 1202</i>), as well as two bases for conclusions for the conceptual framework and reporting model. These documents were issued on January 11, 2021 and were open for comment until June 30, 2021. PSAB is currently deliberating the feedback on the four exposure drafts related to this project.</p>	<p>Management will need to consider the implication of these amendments on the City's financial statements once finalized and issued by PSAB.</p>



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