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AUDIT

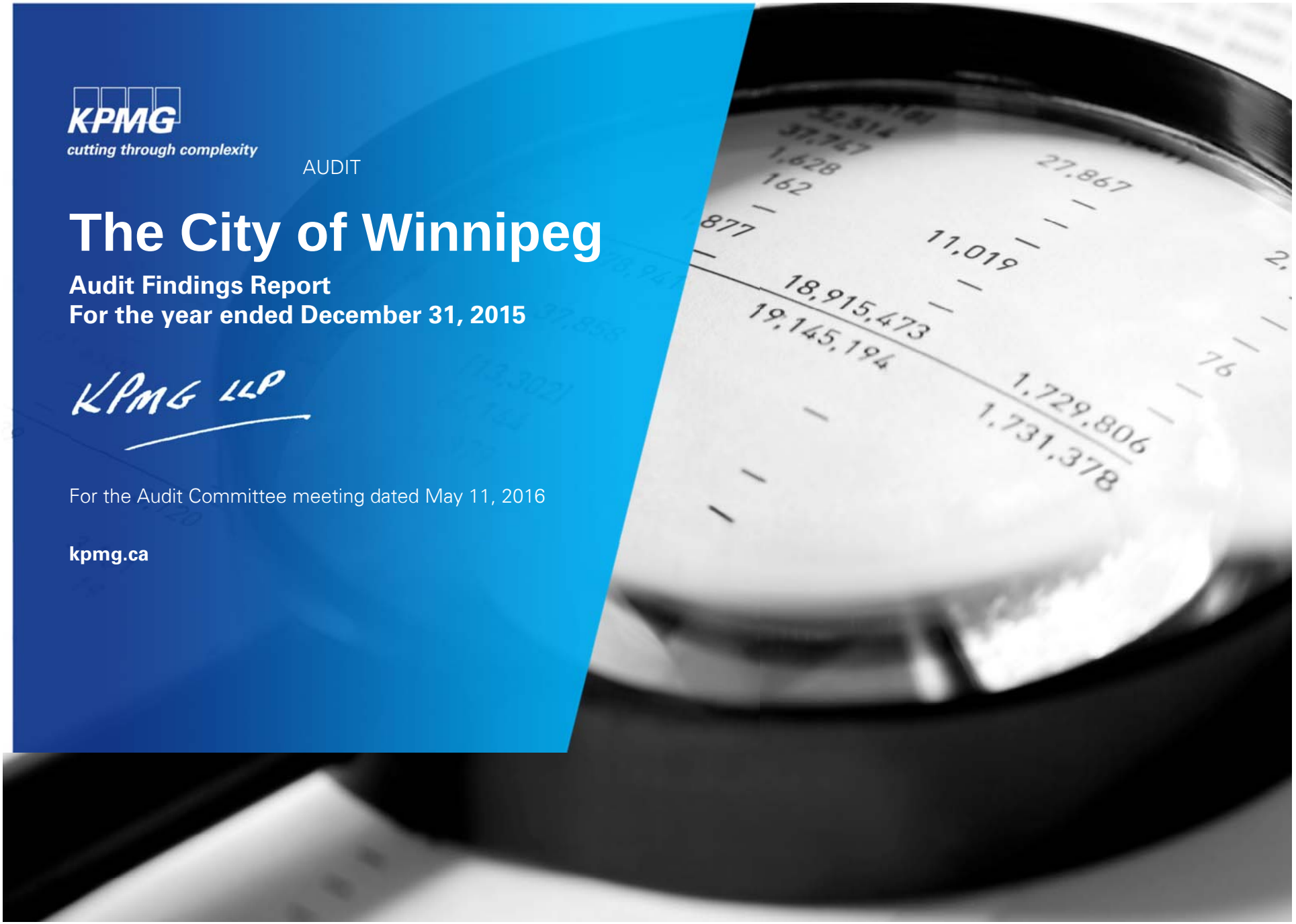
The City of Winnipeg

Audit Findings Report
For the year ended December 31, 2015

KPMG LLP

For the Audit Committee meeting dated May 11, 2016

kpmg.ca



The contacts at KPMG in connection with this report are:

Austin Abas
Lead Audit Engagement Partner

Tel: (204) 957-2217
aabas@kpmg.ca

Shannon Magnusson
Audit Senior Manager

Tel: (204) 957-2283
smagnusson@kpmg.ca

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Purpose of this report*

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the consolidated financial statements of The City of Winnipeg (the City) as at and for the year ended December 31, 2015.

Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures which include:

- Receipt of signed management representation letter and signed engagement letter
- Legal letter confirmations from Legal Services Department
- Completing our discussions with the Audit Committee
- Obtaining evidence of the Audit Committee's approval of the consolidated financial statements
- Subsequent events discussion update to date of audit report.

We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our audit report is dated as of the date of the approval of the financial statements.

Audit and business risk

Our audit is risk focused. In planning our audit we have taken into account key areas of focus for financial reporting. These include revenue recognition and management override of controls.

In addition, other areas of audit focus and follow-up on prior year matters include the following:

- Contaminated sites
- Expropriation liability
- Parking ticket issue
- Real estate and fire paramedic station review
- Police headquarters review

See pages 7 – 9 and 13

Audit materiality

Materiality has been determined based on total expenses. We have determined materiality to be $30 million for the year ending December 31, 2015 (2014 – $28 million).

See page 5

KPMG team

The KPMG team was led by Austin Abas. He was supported by the team outlined on page 19. Subject matter experts would be involved as necessary to ensure our approach is appropriate and robust.

***** This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary (continued)

Effective communication

We are committed to transparent and thorough reporting of issues to the City's managers and the Audit Committee.

Audit adjustments and differences

We noted no uncorrected misstatements for the year ended December 31, 2015.

We noted no corrected misstatements for the year ended December 31, 2015.

Critical accounting estimates

Overall we are satisfied with the reasonability of **critical accounting estimates** taken. The critical areas of estimates relate to the following:

- Accrued employee benefits
- Landfill liabilities
- Legal liabilities
- Allowances on taxes receivables

See pages 10 - 12

Independence

We have included a copy of our independence letter which notes that we are independent with respect to the City (and its related entities), within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

Fees for non-assurance services and the nature of the services themselves are assessed in our annual independence letter (Appendix 2).

Significant accounting policies and practices

Significant accounting policies and practices are disclosed in Note 2 to the financial statements.

During the year, the City adopted a new accounting standard related to contaminated sites as disclosed in Note 2(p) of the financial statements.

See page 6

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The first step is the determination of the amounts used for planning purposes as follows.

The determination of materiality requires judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures:

2015 materiality determination	Comments	
Benchmark	Based on an estimate of total expenses for the year. This benchmark is consistent with the prior year.	$1.5 billion
% of Benchmark	The corresponding percentage for the 2014 audit was 2%.	2%
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the 2014 audit was $28 million.	$30 million
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the 2014 audit was $21 million.	$22.5 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the 2014 audit was $1.4 million.	$1.5 million

Areas of audit emphasis

Significant financial reporting risks

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

On pages 6 to 9 we highlight our significant findings in respect of significant financial reporting risks as identified, as well as other matters.

Significant financial reporting risks	Description of risk	Our significant findings from the audit
Management override of controls	This is a presumed fraud risk for all audits. See detail on the left for more information.	As the risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk. These procedures included testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions. As a result of these procedures, no matters were found to be reported.
Revenue recognition	This is a presumed fraud risk for all audits. There is a risk that revenue will be recorded when it has not been earned. See detail on the left for more information.	Professional standards require certain procedures to be performed to address the presumed risk of fraudulent recognition of revenue. As a result, we performed the following procedures: • Test and evaluated design and operating effectiveness of key controls over significant revenue accounts including controls related to fraud risk • Evaluation of appropriate application of tax roll assessment and taxation rates as established by the Council • Examination of taxes receivable year-end reconciliation • Confirmation of significant government transfers • Assess reasonableness of developer contribution revenue relating to new developments and other contributed assets • Agreed other significant revenue and receivables outstanding at year-end to supporting documentation • Review of allowance for property tax arrears, business tax arrears and other doubtful accounts receivable balances. • Review allowance for property and business tax appeals for reasonableness • Performed substantive analytical procedures over sales of services and regulatory fees. As a result of these procedures, no matters were found to be reported.

Other audit risks

Other areas of focus for our audit included the following:

Other audit risks	Our significant findings from the audit
Contaminated sites	As noted in note 2p of the City's consolidated financial statements, the Public Sector Accounting Board issued a new accounting standard, *PS 3260, Liability for Contaminated Sites,* which was adopted by the City beginning January 1, 2015. In order to properly adopt the new Contaminated Sites standard, the City's Corporate Finance department managed the implementation process with the following steps: • Develop a complete listing of all City owned land properties through a comparison of the properties in the PeopleSoft Asset Management system to the properties in the assessment and taxation system. • The listing was split by asset type and then sent to the applicable City Department to answer questions on each property in relation to this new standard and potential contamination issues. • Corporate Finance obtained the analysis back from the Departments which identified all properties not in productive use or with known or possible contamination from an unexpected event. • Sites identified from this analysis as potentially having contamination in excess of environmental standards were further assessed to determine if the City is responsible for the remediation of the site, and if yes, can a reasonable estimate of the liability be made. • The above resulted in a new liability relating to the estimated cost of remediation of 1500 Plessis amounting to $6.6M as at December 31, 2015. In addition, a liability of $765K is recorded at December 31, 2015 relating two other contaminated sites, which were previously recorded as liabilities by the City. • In addition, the City contacted its wholly-owned entities and assessed sites owned by these entities under this new standard. The standard has been applied retroactively with an adjustment to the opening balance of the 2015 accumulated surplus of approximately $7.2M. **KPMG comments regarding effect on the audit** KPMG and the Audit Department has been involved in discussions with Corporate Finance through the implementation process. We performed the following procedures to gain assurance over the implementation of the new contaminated sites standard: • Obtained the City owned land properties listing by department and tested listing for completeness on a sample basis. • Reviewed assessments performed by Departments for identification of properties not in productive use and with possible contamination issues noted. • Obtained memo from Corporate Finance detailing and analysing each site with a potential contamination issue. For those instances where an environmental assessment report were obtained, we obtained and reviewed the reports and assessed the reasonableness of management's assessment. • We reviewed the disclosure relating to this new accounting standard in note 2h and 2p of the City's consolidated financial statement for reasonableness and concurrence with the new standard.

	Based on the above procedures, we concur with management's assessment of contaminated sites under PS 3260 and the resulting accounting treatment and disclosure in the financial statement.
Parking ticket and winter parking ban issues	*Parking ticket issue* On August 25, 2015, a Judicial Justice of the Peace (JJP) concluded a parking ticket was invalid due to information from Winnipeg Parking Authority (WPA) not being filed within six months of the original summons being issued as required by the Summary Convictions Act (SCA). This prompted a review of the entire ticketing process, by both the City and the Province. The City's Legal Services Department retained two outside law firms to assist with this review. The findings from the review concluded that the current parking ticket process fails to meet the requirement of the SCA. The WPA changed their process for collection in September and October of 2015, ceasing to issue monthly statement to vehicle owners with outstanding parking tickets, ceasing to refer new matters to collection agencies, and ceasing to impose liens on vehicles and seizing vehicles that have been liened. The City has decided to pursue a limited collection process on outstanding tickets by issuing monthly statements only on parking tickets issued within the last 6 years, which the City will commence following their communication of the misinformation in respect of the default conviction. If necessary, the City can pursue any other civil remedies available to it. As a result of the review, the City will not be issuing refunds of any parking fine revenues collected. As a result of the limited collection options, WPA increased their allowance on outstanding parking ticket receivables by approximately $2.7M, reducing the net receivable to $680K, representing 10% of outstanding parking tickets owed to the City for tickets issued during the period from 2010 to 2015. *Winter parking bans* In the fall of 2015, the City's Legal Services Department conducted a review of both the City's residential parking bans and the snow route parking bans. They retained an outside law firm to assist with this review. The review concluded that the tickets issued for both residential parking ban and snow route parking ban violations were issued lawfully and the City has no obligation to refund tickets that have been paid. As a result of the review, the City announced to the public that they will change the hours in which tickets can be issued from 11:00 pm to 6:00 am in order to ensure compliance with the Highway Traffic Act which only permits ticketing without signage or information from a peace officer during this timeframe. The City also announced to the public that they will no longer be pursuing collection on outstanding tickets from previous winter parking bans. **KPMG comments regarding effect on the audit** We obtained supporting information from the City's Legal Services Department and WPA detailing the above noted discussion.

	We held discussions with City management, including the City's Legal Services Department, regarding these issues. We obtained an analysis from WPA on the parking receivable allowance, assessed reasonableness of the increase in the allowance given the above change in the process, and concur that the allowance is reasonable.
Expropriation liability accounting	As at December 31, 2015, the City has recorded an expropriation liability of $21M (2014 -$26M) based on management's estimate of the cost of outstanding expropriations. During 2015, Corporate Finance reviewed the accounting process for the recognition of expropriation liability in order to develop a more consistent approach on the timing of recording the expropriation liability and applicable land. A detailed review of The Expropriation Act was completed by management which details the steps required in the expropriation process and the point at which the City takes possession of the land (has obtained benefit and risk of the land ownership) and should record the expropriation liability. The analysis determined that the City generally takes possession of the land at the end of the Notice of Possession expiry period, unless the City has an "Enter to Construct" agreement on the expropriated land, in which case earlier recognition of the land and liability should be considered. The above analysis was used to determine when the significant expropriations in progress during fiscal 2015 would be recorded in the City's financial statements; namely Taylor Fire Paramedic Station recorded in 2015, and Southwest Transit Corridor and Cockburn-Calrossie Retention Pond to be recorded in 2016. Management looked at the significant 2014 expropriations, Polo Park Infrastructure Improvements, to assess if it was recorded in the appropriate period based on this recognition policy. It was determined that the expropriation liability and land of approximately $8M was recorded prematurely in 2014, when the step necessary for the City to have possession (end of Notice of Possession expiry period) occurred in 2015. Management determined this early recognition not material to their financial statements 2014 comparative figures. **KPMG comments regarding effect on the audit** We reviewed management's policy for recognition of expropriated land and the associated liability and concurs with the findings. We reviewed all significant expropriations in progress during the year and concurred with the timing of the recognition based on management's review. We concur with management's assessment to not adjust the 2014 comparative figures to the Polo Park Infrastructure Improvement expropriations, as there is no impact on 2015, and no significant impact on 2014 that would warrant a restatement of comparative figures. We concur with management's assessment of recognition for the significant expropriations in progress in 2015.

Critical accounting estimates

Under Canadian public sector accounting standards, management is required to disclose information in the consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be "critical accounting estimates."

We have summarized our assessment of the subjective areas.

Asset / liability	Balance	KPMG comment
Accrued employee benefits	$204 million	The City has various future-oriented employee benefits available for qualified employees including compensated absences, severance pay benefit plans, and pension plans (Winnipeg Civic Employees' Benefits Pension Plan, Winnipeg Police Pension Plan, and the Council Pension Benefits Program). The City utilized actuaries to determine the costs of each of these employee benefits for the year ended December 31, 2015. Management provides the actuary with assumptions on which the actuary bases their calculation such as long-term rate of investment return on plan assets, discount rate, employee-related factors, sick leave utilization, retirement age, inflation and salary escalation, and mortality rates. Management has disclosed the actuarial valuation information provided from the actuaries in the notes to the City's consolidated financial statements. **KPMG comments regarding effect on the audit** We agreed the actuarial valuation information provided in the letter from actuaries to the disclosures in the consolidated financial statements. We assessed management's assumptions used in the calculation of future oriented employee benefits and concur with management's assessment and accounting treatment.
Landfill liability	$42 million	The City operates the Brady Road Landfill Site (Brady Landfill) and maintains and monitors several former landfill sites. The City estimates costs associated with future landfill closure and post-closure care requirements in the determination of its environmental liability. In estimating future landfill closure costs, management has estimated the total cost to cover, landscape, and maintain the site based upon its remaining life and capacity. Management has estimated the costs associated with the future landfill closure and post-closure care requirements in accordance with PS 3270, *Solid Waste Landfill Closure and Post Closure Liability* to be approximately $41.7 million as at December 31, 2015 (2014 - $30.5 million). Management has estimated the remaining life of the Brady Landfill to be 109 years after which perpetual post-closure maintenance is required. During 2015, Management had a new study completed by a third party engineering firm on the closure and post-closure costs associated with the Brady Landfill. This new study along with management's revised estimates of closed landfill costs, in combination with a reduction of the discount rate used from 5% in 2014 to 4.5% in 2015, resulted in this liability increasing by approximately $11M.

		KPMG comments regarding effect on the audit We obtained management's analysis of environmental liabilities, including management's calculation of the future landfill closure and post-closure care requirements. We tested the analysis for reasonableness and compliance with PS 3270. We reviewed management's estimates and assumptions used in the calculation of the landfill liability and found the estimates and assumptions to be reasonable and supportable.
Legal liabilities	$1.4 million	The City has contingent liabilities relating to lawsuits against the City. Management has reviewed all significant claims against the City outstanding at December 31, 2015 with the Legal Services Department in order to assess if a provision is required in accordance with PS 3300, *Contingent Liabilities*. **KPMG comments regarding effect on the audit** We obtained the analysis of legal claims against the City from the Legal Services Department. We have obtained legal confirmations from both the City's Legal Services Department and external legal counsel. We assessed the adequacy of management's analysis, and resulting provision and disclosure for contingent liabilities and concur with management's accounting treatment.
Taxes	$4 million	*Allowance for uncollectible tax receivables* The City has a risk of uncollectible accounts relating to overdue business taxes receivable and taxes receivable relating to grantable properties, where the City receives a government grant in lieu of taxes. Management has analyzed the accounts in arrears and determined an allowance of approximately $4.2 million as at December 31, 2015 (2014 - $6.2 million) was required to account for the risk of uncollectible accounts, which primarily relates to the allowance of $3.7M on a receivable of $6.8M relating to Federal grantable properties being the Canadian Museum for Human Rights. During 2015, the Federal Dispute Advisory Panel (DAP) hearing regarding the Canadian Museum for Human Rights was completed on the land valuation assessment which resulted in a slight decrease in the land's assessed value. The DAP hearing regarding the building valuation assessment has yet to take place. During 2015, the City settled a dispute with the Virology lab, collecting $3.7M and writing off approximately $2M.
	$9 million	*Allowance for property assessment appeals* In addition, the City has a risk relating to property assessment appeals, where both residences and businesses have the ability to go through the appeal process to dispute the taxes they have been assessed.

Management tracks all active appeals in the Appeals Application Control System and holds meetings on a quarterly basis to review projected appeals losses. Management applies a "win-loss" estimate to reflect their best estimate of the most likely outcome of the current appeals. An amount of approximately $9.1million (2014 - $8.6 million) was recorded as an appeal cost liability as at December 31, 2015.

KPMG comments regarding effect on the audit

We have reviewed management's estimates and assumptions used to assess the allowance required to reflect the risk of uncollectable tax receivables and assessment appeal costs.

We concur with management's estimates and assumptions in assessing the total allowance and appeal liability.

Management has disclosed estimation uncertainty in the consolidated financial statements related to the above critical accounting estimates (Note 2(n)) of the consolidated financial statements).

We found no significant changes to management's process for making the above critical accounting estimates.

Follow-up on prior year matters

During our audit, we followed up on the status of matters that were in progress during the previous fiscal year.

Other areas of focus	Our significant findings from the audit
Real estate and fire paramedic station review	As a result of a fire paramedic station being built in 2012 on land that was owned by a third party, Council ordered an independent review of this transaction be conducted in 2013, on which 14 recommendations were made. An additional 5 year historical review of all land transfers and sales by an independent firm contained 17 recommendations. Management recognizes the importance of these reports and is in the process of implementing the recommendations. Quarterly status reports are presented to Council which detail the status of the recommendations contained in both reports. The Quarter 4 2015 status reports detailed that all recommendations are completed or are targeted for completion by the 2nd quarter of 2016. Most of the remaining recommendations will be implemented with the development of the Real Estate Transaction Management Framework, which is scheduled to be implemented in the 2nd quarter of 2016. During 2015, management recorded an expropriation liability of approximately $4M relating to the fire paramedic station, representing the maximum the City believes will be paid for this land, but the City remains in the negotiation over the land value. **KPMG comments regarding effect on the audit** We obtained the quarterly status report relating to both the real estate and fire paramedic station review and discussed the status of the implementation with the Audit Department. We recommends that the status of these recommendations continue to be monitored by management and Council on a quarterly basis to ensure adequate and timely progress is being made on these recommendations. We reviewed significant land sales that took place during 2015 and obtained supporting documentation of the transaction and the authorization of the sales.
Police headquarters review	During 2014, Council adopted a motion that an external auditor be engaged to conduct an independent audit of the Winnipeg Police Service headquarters construction project. The independent firm reported on their findings and made 19 recommendations, which were adopted by Council on July 16, 2014. The City's Audit Department completes quarterly status report for Council. The 2015 4th Quarter status report details that 15 of the recommendations are completed and 4 are targeted to be completed in the 1st quarter of 2016. **KPMG comments regarding effect on the audit** KPMG reviewed the 2015 4th Quarter status report and discussed the progress with the Audit Department. KPMG recommends that the status of these recommendations continue to be monitored by management and Council on a quarterly basis to ensure adequate and timely progress is being made on these recommendations.

Audit adjustments and differences

Audit adjustments and differences identified during the audit have been categorized as Corrected audit adjustments; or Uncorrected audit differences. These include disclosure adjustments and differences.

Although the uncorrected differences have no effect on our auditors' report, these uncorrected differences or the underlying matters regarding adjustments or differences (e.g., control deficiencies) could potentially cause future annual or interim financial statements to be materially misstated or have an implication on the financial reporting process.

Corrected audit adjustments

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected audit differences

We did not identify any uncorrected audit differences during our audit.

Appendices

Appendix 1: Required communications

Appendix 2: Independence letter

Appendix 3: Management representation letter

Appendix 4: Team

Appendix 5: Audit quality and risk management

Appendix 6: Background and professional standards

Appendix 7: Current developments

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audits. These include:

- **Engagement letter** – the objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters.
- **Independence letter** – In accordance with professional standards, we have attached our independence letter in Appendix 2.
- **Auditors' report** – the conclusion of our audit is set out in our auditors' report included in the financial statements
- **Management representation letter** – In accordance with professional standards, a copy of the representation letter to be obtained from management is provided in Appendix 3.

Appendix 2: Independence letter

KPMG LLP
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3
Canada

Telephone (204) 957-1770
Fax (204) 957-0808
Internet www.kpmg.ca

The City of Winnipeg
510 Main Street
Winnipeg MB R3B 1B9

May 11, 2016

Dear Audit Committee

Professional standards specify that we communicate to you in writing all relationships between The City of Winnipeg (the Entity) (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
- economic dependence on a client.

PROVISION OF SERVICES

KPMG provided professional services rendered by us to the Entity (and its related entities) as detailed in the signed engagement letter dated March 16, 2016.

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2015 up to the date of our auditors' report.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2015 up to the date of our auditors' report.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

/nbl

2015-12-31 City of Winnipeg LTR Independence Audit.docx

Appendix 3: Management representation letter

Office of the Chief Administrative Officer • Bureau de directeur municipal
Chief Financial Officer • Chef des finances

KPMG LLP
Suite 2000 - One Lombard Place
Winnipeg MB R3B 0X3

May 11, 2016

Ladies and Gentlemen

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of The City of Winnipeg ("the City") as at and for the period ended December 31, 2015. These financial statements were prepared in accordance with Canadian public sector accounting standards.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the request for proposal of annual audit services issued on May 16, 2016, for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with Canadian public sector accounting standards.

   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared that may affect the financial statements, and access to such relevant information.

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

2nd Floor, 510 Main Street • 510, rue Main, 2e étage • Winnipeg • Manitoba R3B 1B9
tel/tél. (204) 986-2378 • fax/télec. (204) 949-1174 • mruta@winnipeg.ca

INTERNAL CONTROL OVER FINANCIAL REPORTING:

2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the City and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the City's financial statements, communicated by employees, former employees, analysts, regulators, or others

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

COMMITMENTS & CONTINGENCIES:

4) There are no other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation and guarantees, whether written or oral, under which the City is contingently liable that may have an impact on the financial statements.

SUBSEQUENT EVENTS:

5) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

6) We have disclosed to you the identity of the City's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the Canadian public sector accounting standards.

ESTIMATES:

7) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

8) Significant estimates, which could change materially within the near term, and all areas of measurement uncertainty have been properly recorded or disclosed in the financial statements.

ASSETS & LIABILITIES - GENERAL:

9) The City has satisfactory title to all owned assets.

10) We have no knowledge of any liens or encumbrances on assets and/or assets that have been pledged or signed as security for liabilities, performances of contracts, etc., not disclosed in the financial statements.

11) We have no knowledge of any plans or interactions that may materially affect the carrying value or classification of assets and liabilities.

RECEIVABLES:

12) Receivables reported in the financial statements represent valid claims against debtors arising on or before the balance sheet date. Receivables have been appropriately reduced to their net realizable value.

INVENTORIES:

13) No inventory is stated at an amount in excess of net realizable value.

PROVISIONS:

14) Provisions, when material, has been made for:

a) losses to be sustained as a result of the reduction of excess, damaged, unusable or obsolete inventories to their estimated net realizable value.

b) losses to be sustained as a result of other-than-temporary declines in the fair value of investments.

c) losses to be sustained from impairment of property, plant and equipment.

ECONOMIC DEPENDENCE:

15) We have no knowledge of economic dependence to be disclosed in the financial statements.

CONTRACTUAL AGREEMENTS:

16) The City has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of non-compliance including violations or default of the covenants in the City's debt agreements.

ACCOUNTING POLICIES:

17) The accounting policies selected and applied are appropriate in the circumstances.

18) There have been no changes in, or newly adopted, accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.

ENVIRONMENTAL MATTERS:

19) The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

NON-FINANCIAL ASSETS:

20) We have reviewed non-financial assets, including tangible capital assets, to be held and used, for impairment, whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable.

EMPLOYEE FUTURE BENEFITS:

21) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

22) We have no knowledge of arrangement (contractual or otherwise) by which programs have been established to provide post-employment benefits, except as disclosed to you.

23) The significant accounting policies the City has adopted in applying PS 3255, Postemployment benefits, compensated absences and termination benefits (hereinafter referred to as "PS3255") are disclosed in the notes to the financial statements.

24) All arrangements (contractual or otherwise) by which programs have been established to provide post-employment benefits have been disclosed to you and included in the determination of pension and post-employment costs and obligations. This includes:

a) pension and other retirement benefits expected to be provided after retirement to employees and their beneficiaries.

b) post-employment benefits expected to be provided after employment but before retirement to employees and their beneficiaries. These benefits include unused sick leave and severance benefits.

c) compensated absences for which it is expected employees will be paid. These benefits include accumulated sick days, and termination benefits.

25) The post-employment benefit costs, assets and obligation have been determined, accounted for and disclosed in accordance with PS 3255. In particular:

   a) each of the best estimate assumptions used reflects management's judgment of the most likely set of conditions affecting future events; and

   b) The best estimate assumptions used are, as a whole, consistent within themselves, and with the valuation method adopted for purposes of this evaluation.

26) In arriving at these assumptions, management has obtained the advice of a specialist, but has retained the final responsibility for them.

27) The source data and plan provisions provided to the actuary, if necessary, for preparation of the actuarial valuation are accurate and complete.

28) All changes to plan provisions or events occurring subsequent to the date of the actuarial valuation and up to the date of this letter have been considered in the determination of pension and other post-employment benefit costs.

29) The extrapolations are accurate and properly reflect the effects of changes and events that occurred subsequent to the most recent valuation and that had a material effect on the extrapolation.

30) All material events and changes to the plan subsequent to the most recent actuarial valuation have been properly reflected in the extrapolation.

SEGMENT DISCLOSURES:

31) The City's operating segments have been appropriately identified and the related segment and enterprise-wide disclosures have been made in the financial statements in accordance with the relevant financial reporting framework.

32) The operating segment information disclosed in the financial statements is consistent with the form and content of the information used by the City's chief operating decision maker for purposes of assessing performance and making operating decisions about the City's individual operations.

33) The aggregation of the various City funds as operating segments meets all of the applicable criteria contained in the relevant financial reporting framework.

OTHER:

34) The information regarding the budget to actual information presented in the consolidated financial statements has been prepared and presented in accordance with PSAB 1200. We have included all the budget information that is available with respect to the items presented in the financial statements.

35) All reserve transactions have been appropriately approved, in accordance with applicable legislation and are appropriately credited to or charged against fund balances. Reserve amounts represent only those amounts that are available for use at the City's discretion and do not include restrictions on use by third parties.

36) All transfers out of statutory reserves have been approved by bylaw except for those transfers which are allowed by Council resolution.

Yours very truly,

_____

Mr. Mike Ruta, Chief Financial Officer

_____

Mr. Paul Olafson, Corporate Controller

We have the recognized authority to take, and assert that we have taken, responsibility for the financial statements

/def

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Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Attachment II – Management Responsibilities

Management acknowledges and understands that it is responsible for:

- the preparation of the financial statements for consolidation purposes
- ensuring that all transactions have been recorded and are reflected in the financial statements for consolidation purposes
- such internal control as management determines is necessary to enable the preparation of financial statements for consolidation purposes that are free from material misstatement, whether due to fraud or error. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud
- providing us with access to all information of which management is aware that is relevant to the preparation of the financial statements for consolidation purposes such as records, documentation and other matters
- providing us with additional information that we may request from management for the purpose of the audit
- providing us with unrestricted access to persons within the Entity from whom we determine it necessary to obtain audit evidence
- providing us with written representations required to be obtained under professional standards and written representations that we determine are necessary. Management also acknowledges and understands that professional standards require that we disclaim an audit opinion when management does not provide certain written representations required

An audit does not relieve management or those charged with governance of their responsibilities.

Appendix 4: Team

Team member	Discussion of role
Austin Abas **Lead Audit Engagement Partner** **aabas@kpmg.ca** **(204) 957-2217**	• Austin led our audit for the City and was responsible for the quality and timeliness of everything we did. • He was onsite with the team as part of the year end audit and will always be available and accessible to you and the City's management. • Austin has been the lead audit partner on the City's financial statement audit since 2010.
Shannon Magnusson **Audit Senior Manager** **smagnusson@kpmg.ca** **(204) 957-2283**	• Shannon is very closely involved in all aspects of our audits of the City. She was on site and directly oversaw and managed our audit field team and worked closely with the City's management team and the engagement partners, Austin and Shawna. • Shannon has been the audit senior manager on the City's financial statement audit since 2010.
Shawna Lounsbury **Engagement Partner** **slounsbury@kpmg.ca** **(204) 957-2208**	• Shawna has been involved in the audit for the City for the last 5 years to support the team on all significant audit and accounting matters. • Shawna has been a supporting partner on the City's financial statement audit since 2010.
Archie Johnston **Engagement Quality Control Reviewer** **agjohnston@kpmg.ca** **(604) 527-3757**	• Archie has acted as Engagement Quality Control Reviewer on the audit of the City for the last 5 years. Archie is a resource for auditing and accounting matters in relation to the public sectors and specifically for municipalities. • Archie has acted as Engagement Quality Control Reviewer on the City's financial statement audit since 2010.

Appendix 5: Audit quality and risk management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx for more information.

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 6: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

Appendix 7: Current developments

Please visit the Current Developments Update for Audit Committee section of the Audit Committee Institute page for recent developments in Public Sector Accounting, Canadian securities matters, Canadian auditing and other professional standards.

The following is a summary of the current developments that are relevant to the City:

Standard	Summary and implications
Introduction to Public Sector Accounting Standards	The Handbook was previously written to address the financial reporting needs of governments in Canada. With the scope including government organizations that previously reported under Part V of the CPA Handbook, an update to the introduction was necessary. Effective for fiscal years beginning on or after January 1, 2017.
Related Party Disclosures Section PS 2200	New section defines a related party and establishes disclosures required for related party transactions. Fiscal years beginning on or after April 1, 2017.
Inter-Entity Transactions Section PS 3420	New 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 recipient perspective. Fiscal years beginning on or after April 1, 2017.
Assets Section PS 3210	Amended to provide additional guidance on various components of the assets definition and establish general disclosure standards for assets. Fiscal years beginning on or after April 1, 2017.
Contingent Assets Section PS 3320	Amended to provide a definition of contingent assets and supporting guidance and establish general disclosure standards for contingent assets. Fiscal years beginning on or after April 1, 2017.
Contractual Rights Section PS 3380	Amended to provide a definition of contractual rights and supporting guidance and establish general disclosure standards for contractual rights. Fiscal years beginning on or after April 1, 2017.
Restructuring Transactions Section PS 3430	Amended section defines a restructuring transaction; distinguishes restricting transactions from similar transactions; distinguishes restructuring-related transactions from restructuring transactions, establishes how assets and liabilities transferred in a restructuring transaction should be recognized and measured; and sets out presentation and disclosure requirements. Fiscal years beginning on or after April 1, 2018.

Foreign Currency Translation Section PS 2601	This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements. Fiscal years beginning on or after April 1, 2019 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 3450.
Portfolio Investments Section PS 3041	This Section establishes standards on how to account for and report portfolio investments in government financial statements. Effective when Sections PS 1201, PS 2601 and PS 3450 are adopted.
Financial Instruments Section PS 3450	The transitional provisions in Section PS 3450 do not allow retroactive application of financial instrument recognition, de-recognition and measurement policies when entities adopt the standard. Fiscal years beginning on or after April 1, 2019 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 2601.
Financial Statement Presentation Section PS 1201	This Section establishes general reporting principles and standards for the disclosure of information in government financial statements. Effective when Sections PS 2601 and PS 3450 are adopted.

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