Minute No. 385
Report – Executive Policy Committee – June 8, 2016

Item No. 11 Liability for Contaminated Sites Project – Implementation of New Accounting Standard

COUNCIL DECISION:

Council concurred in the recommendation of the Executive Policy Committee and adopted the following:

1. That the report be received as information.

Report – Executive Policy Committee – June 8, 2016

DECISION MAKING HISTORY:

Moved by His Worship Mayor Bowman,

That the recommendation of the Executive Policy Committee be adopted by consent.

Carried

EXECUTIVE POLICY COMMITTEE RECOMMENDATION:

On June 8, 2016, the Executive Policy Committee concurred in the recommendation of the Winnipeg Public Service and submitted the matter to Council.

ADMINISTRATIVE REPORT

Title: **Liability for Contaminated Sites Project (Implementation of New Accounting Standard)**

Critical Path: **Audit Committee – Council**

AUTHORIZATION

Author	Department Head	CFO	CAO/COO
M. Giles	B. Mansky City Auditor	N/A	N/A

RECOMMENDATIONS

That the report be received as information.

REASON FOR THE REPORT

This report is submitted in accordance with the Audit Department's annual audit plan that has been approved by Council, and in accordance with the City Organization By-law 7100/97 section 19(d)(iv), that the Audit Committee will "receive and review audit reports, and table such reports with its recommendations at a regular meeting of Executive Policy Committee."

EXECUTIVE SUMMARY

In coordination with the City's external auditor, KPMG, the Audit Department has concluded that the Public Service has developed sufficient processes to incorporate the new public accounting standard for liabilities on contaminated sites into the City's financial reporting systems.

IMPLICATIONS OF THE RECOMMENDATIONS

There are no implications of the recommendation.

DISCUSSION

Background

The City of Winnipeg adheres to the accounting standards issued by Canada's Public Sector Accounting Board (PSAB). In 2010, PSAB released a new accounting standard for presenting liabilities associated with contaminated sites in an organization's financial statements.[1] In essence, the standard requires the City to recognize in its financial statements amounts expected to be paid for the remediation of properties that are contaminated in excess of environmental regulations, and for which the City is directly responsible for the remediation. This recognition is required in the City's 2015 financial statements and thereafter.

Inclusion in the Audit Plan

The introduction of new accounting standards introduces the risk that an organization's financial statements will not be presented in accordance with all relevant standards. In general, management must develop appropriate implementation plans to successfully incorporate new standards into financial systems. The primary risks associated with *liability* accounts, especially those based on future cost estimates, are that property listings for contaminated sites may not be complete, and the amounts estimated for remediation may not be appropriately valued. As such, the City Auditor included a project in the *2011-2014 Audit Plan* to provide Council with assurance that the new standard has been appropriately considered and implemented. Similar assurance has also been provided by the Audit Department in the past, most recently for the tangible capital assets accounting standard issued by PSAB that took effect in 2009.

Progress by the Public Service

Development of systems that enable financial reporting free from material misstatement and in accordance with relevant standards is the responsibility of the Public Service. To its credit, the Public Service has recognized amounts for environmental liabilities on City property prior to the new standard's release based on the interpretation of prior accounting standards. This previous recognition in the financial statements accounted for approximately fifty percent of the total value of the liabilities that now qualify for recognition under the new, more rigorous, standard.

In order to implement the new requirements, the Corporate Controller's office held training sessions with department controllers and key employees on the requirements of the new standards in early 2015. Then, in cooperation with the other departments, the Corporate Controller's office initiated a comprehensive review of the City's properties, and other properties where the City may be responsible for remediation,[2] to identify all those that would fall under the standard. This enabled the Public Service to identify and value the properties for which liabilities should be presented in the financial statements.

[1] PS 3260: Liability for Contaminated Sites

[2] Other properties can include properties owned by wholly-owned subsidiaries of the City, or properties that are not owned by the City, but for which the City would have a legally enforceable responsibility to remediate.

External Auditor Involvement

As part of our mandate to coordinate our work with the external auditor to identify areas for reduction in duplication, the Audit Department worked with and reviewed the interim audit work that KPMG performed on the liability account. We attended the regular meetings that KPMG held with the Corporate Controller's office to monitor the implementation of the standard. We reviewed the supporting documentation prepared by the Corporate Controller's office that identified the contaminated properties. We also discussed with KPMG the audit procedures that were planned for the external audit to assess whether the work was sufficient to meet our objective of reporting to Council that appropriate processes were in place to implement the new accounting standard. We believe that these procedures have provided us with sufficient evidence to conclude that the Public Service has developed appropriate processes to incorporate the requirements of the new standard into the City's financial reporting systems. The results of our collaborative work with KPMG have not resulted in any findings that would result in recommendations to the Public Service from the Audit Department.

FINANCIAL IMPACT

Financial Impact Statement **Date:** April 22, 2016

Project Name: **First Year of Program** **2016**

Liability for Contaminated Sites Project

Comments:
This report is received as information only and has no financial impact.

Original signed by R. Hodges
Ramona Hodges
Manager of Finance (Campus)
Corporate Finance Department

CONSULTATION

Corporate Finance Department

KPMG

OURWINNIPEG POLICY ALIGNMENT

01-3 Prosperity - Direction 1 - Provide Efficient and Focused Civic Administration and Governance

This report supports the demonstration of accountability through reporting and to continuously pursue innovative, streamlined service delivery and decision-making processes.

SUBMITTED BY

Department: Audit Department
Prepared by: M. Giles, Deputy City Auditor
Date: April 21, 2016