The City of Winnipeg

Audit Findings Report to the Audit Committee
for the year ended December 31, 2016

KPMG LLP

May 10, 2017

kpmg.ca/audit



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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 financial statements of The City of Winnipeg (the City) as at and for the year ended December 31, 2016.

Audit Materiality

Materiality has been determined based on total expenses. We have determined materiality to be $30 million for the year ending December 31, 2016 (2015 – $30 million).

See page 5

Independence

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Audit Committee approved protocols.

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:

- Real estate and fire paramedic station review
- Police headquarters review

See pages 6 and 10

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

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 receivables
- Expropriation liability

See pages 7 - 9

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.

Finalizing the audit

As of April 28, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- receipt of signed management representation letter
- completing our discussions with the Audit Committee
- obtaining evidence of the Audit Committee's approval of the financial statements
- completing our subsequent event procedures to audit report date.

We will update the Audit Committee's approval, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report will be dated upon the completion of any remaining procedures.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting (ICFR).

See Appendix 5

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:

2016 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 2015 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 2015 audit was $30 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 2015 audit was $22.3 million.	$22.3 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the 2015 audit was $1.5 million.	$1.5 million

Audit risks and results

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.

Significant financial reporting risks	Why	Our significant findings from the audit
Fraud risk from 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. Through the audit work performed, KPMG noted nothing to bring to your attention.
Fraud risk from 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: – Tested and evaluated design and operating effectiveness of key controls over significant revenue accounts – Evaluation of appropriate application of tax roll assessment and taxation rates as budgeted by the Council – Examination of taxes receivable year-end reconciliation to the MANTA system – Confirmation of significant government transfers for both operating and capital purposes – Assess reasonableness of developer contribution revenue – Agreed other significant revenue and receivables outstanding at year-end to supporting documentation – Review of allowance for 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 (transit, water, waste & sewage) and regulatory fees Through the audit work performed, KPMG noted nothing to bring to your attention.

Critical accounting estimates

Under Canadian public sector accounting standards, management is required to disclose information in the 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	$212 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, Eckler Consultants & Actuaries and Mercer (Canada) Limited, to determine the costs and obligation of these employee benefits for the year ended December 31, 2016. Management provides the actuaries 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 and assessed the competency and objectivity of the actuaries used by management. 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	$49 million	The City operates the Brady Road Landfill Site (Brady Landfill) and maintains and monitors 33 former landfill sites. The City estimates costs associated with future landfill closure and post-closure care requirements for Brady and the 33 former landfill sites 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. In estimating the current and future post-closure costs, management has estimated the cost of maintenance of leachate collection and treatment, groundwater monitoring and landfill gas monitoring. 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 $49 million as at December 31, 2016 (2015 - $41.7 million).

Asset / liability	Balance	KPMG comment
		Management has estimated the remaining life of the Brady Landfill to be 108 years (2015 – 109 years) after which perpetual post-closure maintenance is required. During 2016, Management changed the estimate for the post-closure costs of the 33 former landfill sites to use a 3 year average of the forecasted annual post-closure costs, rather than an average of actual annual costs in the past 3 years. As the liability associated with these landfills is this annual expected cost in perpetuity, the impact of this change increased the liability by $4.5 million from the prior year. **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 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, 2016 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, along with a legal letter confirmation. We assessed the adequacy of management's analysis, and resulting provision and disclosure for contingent liabilities and concur with management's accounting treatment.
Tax appeal and other receivable allowances	$13 million	*Allowance for property assessment appeals* 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 to review projected appeals losses. Management determines an estimate for tax appeal allowance based on historical actual losses compared to the maximum appeal loss, to reflect the most likely outcome of the current appeals. Management calculated a best estimate for the appeal liability of approximately $13 million, reflecting an expected loss rate of 60%, whereas an allowance of approximately $10.4 million was recorded as at December 31, 2016. Management corrected this understated liability by increasing the appeal liability by $2.2 million during our audit.

Asset / liability	Balance	KPMG comment
	$9 million	*Allowance for receivables for ambulance services* The City has a risk of uncollectible accounts relating to amounts owed for the use of ambulance services. Management performed a detailed analysis of the receivable balances outstanding less than one year old, assessing the likelihood of collection balances through historical data using demographics and ages of the patient as a basis. Management has assessed the historical non-collection rate to be approximately 21% and has calculated the provision to be $9 million against the ambulance receivable balance. **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 ambulance receivables and assessment appeal costs. We concur with management's estimates and assumptions in assessing the total allowance and appeal liability.
Expropriation	$54 million	As at December 31, 2016, the City has recorded an expropriation liability of $54M (2015 -$21M) based on management's estimate of the cost of outstanding expropriations. In the prior year, Management performed an analysis to ensure consistent timing on the recording of expropriation liabilities and determined the liability should be recorded at the point in time at which the City takes possession of the land (has obtained benefit and risk of the land ownership) at the earlier of the end of the Notice of Possession expiry period or the date of an "Enter to Construct" agreement, when applicable. Based on this analysis, expropriation liabilities relating to the Southwest Transit Corridor and Cockburn-Calrossie Retention Pond projects were recorded in 2016 with estimated expropriation liabilities. During our audit inquiries, it was discovered that the expropriation liability for multiple properties relating to the Waverley underpass project should not be recorded in fiscal 2016 as the possession of land was not received by the City until January 2017, which was corrected in the 2016 financial statements. **KPMG comments regarding effect on the audit** We reviewed all significant expropriations in progress during the year and concurred with both the timing of the recognition based on management's review and the cost estimated.

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. Quarterly status reports were presented to Council which detail the status of the recommendations contained in both reports. During 2016, the few remaining recommendations were implemented with the development of the Real Estate Transaction Management Framework, concluding the implementation process of recommendations from the two independent reviews. As at December 31, 2016, the City remains in the negotiation with the third party owning the land on which the fire paramedic station was built. Management has an expropriation liability recorded related to the station representing the maximum the City believes will be paid for this land. **KPMG comments regarding effect on the audit** We recommend that management establishes a process to review compliance with these newly implemented recommendations, including compliance to the Real Estate Transaction Management Framework. We reviewed significant land sales that took place during 2016 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 last quarterly status report was the 2016 4th Quarter status report, that details that 17 of the recommendations are completed and 2 are targeted to be completed in the 2nd and 3rd quarters of 2017. **KPMG comments regarding effect on the audit** KPMG reviewed the 2016 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 until the remaining 2 recommendations are implemented. We understand the City's Asset and Project Management Office is currently monitoring compliance with the implemented recommendations. In addition, we understand the City's Audit Department performs estimate classification audits for all new major capital projects and some selected non-major projects that are added to the capital budget.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected “adjustments” or Uncorrected “differences.” These include disclosure adjustments and differences.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

The management's representation letter includes the Summary of Corrected Audit Misstatements, which disclose the impact of all corrected differences considered to be other than clearly trivial.

Uncorrected differences

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

Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Management representation letter

Appendix 4: KPMG's audit approach and methodology

Appendix 5: Background and professional standards

Appendix 6: 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 audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Fraud related inquiries** – professional standards require that during the planning of our audit we obtain your views on risk of fraud. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly:
    - What are your views about fraud risks at the City?
    - How do you provide effective oversight of programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?
    - Are you aware of, or have you identified any instances of, actual, suspected, possible, or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, we have attached a copy of the representation letter.
- **Audit findings report** – as attached.

Appendix 2: 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 our Audit Quality Resources page for more information including access to our audit quality report, Audit quality: Our hands-on process.

- Other controls include:
  - Before the firm issues its audit report, the 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 3: Management representation letter

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

May 10, 2017

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 financial statements (hereinafter referred to as "financial statements") of The City of Winnipeg ("the City") as at and for the year ended December 31, 2016. These financial statements were prepared in accordance with Canadian public sector accounting standards.

General:

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 also 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:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated March 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 the relevant financial reporting framework

   b) providing you with all relevant information, such as all financial records and related data, including the names of all related parties and information regarding all relationships and transactions with related parties, and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors 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. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

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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:

   a) 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.

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/balances of which we are aware and all related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

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

Assets & Liabilities – General:

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

9) 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.

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

Receivables:

11) 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.

Accounting Policies:

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

13) 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.

Inventories:

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

Provisions:

15) 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 their fair value of investments

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

Economic Dependence:

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

Contractual Agreements:

17) The City has compiled 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.

Environmental Matters:

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

Non-Financial Assets:

19) 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:

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

21) 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.

22) 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.

23) 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.

24) 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.

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

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

27) 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.

28) 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.

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

Segment Disclosures:

30) 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.

31) 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.

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

Other:

33) 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.

34) 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.

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

Misstatements:

36) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Yours very truly,

_____
Mr. Mike Ruta, Chief Financial Officer

_____
Mr. Paul Olafson, Corporate Controller

/rgd

2016-12-31 City of Wpg LTR rep Audit.docx

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

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 - The City of Winnipeg

For Year Ended December 31, 2016

Summary of Corrected Audit Misstatements

	Effect if recorded on: Increase (decrease)			
	Assets	Liabilities	Accumulated surplus	Annual surplus
Correcting entry required at current period end:				
Provision for assessment appeal refunds and interest	-	2,195,588	-	-
Taxation revenue	-	-	-	(2,195,588)
Correction of understatement of allowance for assessment appeal refunds as at December 31, 2016.				
Total corrected audit misstatements	-	2,195,588	-	(2,195,588)

Appendix 4: KPMG's audit approach and methodology

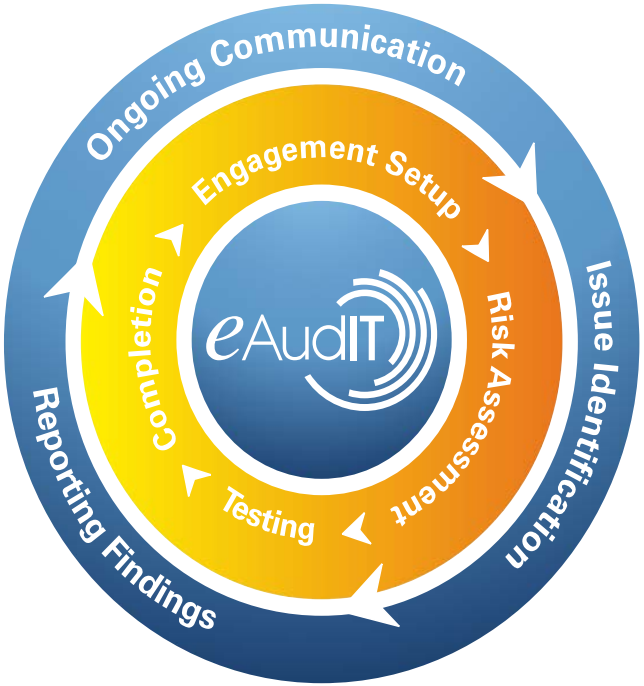
Technology-enabled audit work flow (eAudit)

Engagement Setup

- Tailor the eAudIT work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudIT work flow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudIT work flow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan involvement of KPMG specialists and others including experts, internal auditors, service organizations and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls

Testing

- Tailor the eAudIT work flow to your circumstances
- Test operating effectiveness of internal controls (as considered necessary)
- Perform substantive tests

Appendix 5: 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 6: Current developments

Standard	Summary and implications
Related party transactions and inter-entity transactions	– Two new Handbook sections were approved in December 2014, effective for fiscal years beginning on or after April 1, 2017. Early adoption is permitted. – Related parties include entities that control or are controlled by a reporting entity, entities that are under common control, and entities that have shared control over, or that are subject to shared control, of a reporting entity. – Key management personnel or close members of their family may also be related parties. Disclosure of key management personnel compensation arrangements, expense allowances and other similar payments routinely paid in exchange for services rendered is not required. – Determining which related party transactions to disclose is a matter of judgment based on assessment of: • the terms and conditions underlying the transactions; • the financial significance of the transactions; • the relevance of the information; and • the need for the information to enable users' understanding of the financial statements and for making comparisons. – A related party transaction, with the exception of contributed goods and services, should normally be recognized by both a provider organization and a recipient organization on a gross basis. – Related party transactions, if recognized, should be recorded at the exchange amount. A public sector entity's policy, budget practices or accountability structures may dictate that the exchange amount is the carrying amount, consideration paid or received or fair value.
Assets, contingent assets and contractual rights	– Three new Handbook sections were approved in March 2015, effective for fiscal years beginning on or after April 1, 2017. Early adoption is permitted. – The intended outcome of the three new Handbook sections is improved consistency and comparability. – The standard includes enhanced guidance on the definition of assets and disclosure of assets to provide users with better information about the types of resources available to the public sector entity. – Disclosure of contingent assets and contractual rights is required to provide users with information about the nature, extent and timing of future assets and potential assets and revenues available to the public sector entity when the terms of those contracts are met.
Restructurings	– A new Handbook section was approved in March 2015, effective for fiscal years beginning on or after April 1, 2018. Early adoption is permitted. – A restructuring transaction is a transfer of an integrated set of assets and/or liabilities, together with related responsibilities for program delivery or administrative operations, that does not involve a payment or other consideration that approximates the fair value of what is transferred.

Standard	Summary and implications
	– The new standard requires the transferor remove the assets and liabilities transferred from its books at their carrying amount at the restructuring date. The recipient would recognize the assets and liabilities received at their carrying amount with applicable adjustments at the restructuring date. Both the transferor and the recipient would recognize the net effect of the transfer and any compensation involved as revenue or an expense. – Restructuring-related costs are recognized as expenses when incurred. – Financial information prior to the restructuring date would not be restated.
Financial instruments	– New accounting standards, Financial Instruments PS3450 and Foreign Currency Translation PS2601 have been approved by PSAB and are effective for years commencing on or after April 1, 2019. Early adoption is permitted. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice. This choice must be made on initial recognition of the financial instrument and is irrevocable. Instruments denominated in foreign currencies must be adjusted to reflect the exchange rate in effect at the reporting date. – Hedge accounting is not permitted. – A new statement, the Statement of Re-measurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted and foreign currency denominated financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the Statement of Operations.
Asset retirement obligations	– The Public Sector Accounting Board ("PSAB") recently released an Exposure Draft ("ED") entitled Asset Retirement Obligations ("ARO"), Proposed Section PS 3280 following the consideration of comments received in response to the previously released Statement of Principles. Once adopted, the standard will bring consistency between PSAB and most other accounting frameworks both in Canada and internationally. – The proposed ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). Some of the typical costs associated with AROs include: asbestos removal, site restoration required under the terms of a lease of land, hazardous materials removal (as components of the asset rather than by-products of operation), and post retirement monitoring and maintenance, if applicable. Costs associated with retiring TCA both in productive use and not in productive use are within the scope of this standard, and it is therefore more all-encompassing than the most recent standard adopted related to liabilities for contaminated sites. – An ARO liability would initially be recorded at its fair value (normally estimated using a present value technique) at the time of acquisition or construction of the TCA. The liability is subsequently increased or "accreted" up to the settlement date using an effective interest rate (normally the rate used to estimate the present value of the liability) with the corresponding debit amount being expensed. – A corresponding addition to the carrying amount of TCA is recognized at the same time as the ARO liability, which would then be amortized over the TCA's useful life. The net effect is an increase in TCA and ARO liability upon recognition, and over time, an increase in amortization expense and accretion expense. – If the TCA is no longer in use, the amount of the ARO is expensed immediately. – As a result of the proposed standard, the public sector entity will have to:

Standard	Summary and implications
	• consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues. – The standard has a proposed effective date of April 1, 2021.
Revenue	– The Public Sector Accounting Board ("PSAB") is proposing a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. A Statement of Principles was issued in 2013 and an Exposure Draft is anticipated to be published in 2017. – Adoption of these principles would result in a need to assess current accounting policies. – In the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – For unilateral revenues, recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.
Concepts underlying financial performance	– A consultation paper was issued on the conceptual framework and closed in August 2015. – A Statement of Principles is being developed in 2017 which will focus on the concepts underlying measuring the financial performance of public sector entities.
Public private partnerships	– A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. A phased approach will address the definition and measurement of transactions with public private partnerships. – A Statement of Principles is anticipated in 2017.
Employee future benefit obligations	– Given the complexity of issues involved and potential implications of any changes that may arise from review of PS3250 Retirement Benefits and PS3255 Post-Employment Benefits, PSAB is undertaking this project in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – An Invitation to Comment was issued in November 2016, closing March 2017, seeking guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. – Separate invitations to comment will be issued in the future on discount rate and other aspects of the PSAB project. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
PSAB strategic plan	– In October 2016, PSAB issued an Invitation to Comment seeking feedback on its 2017-2020 draft strategic plan and how it can best serve public interest through improving information for accountability and decision-making. – PSAB approved its 2017-2020 strategic plan in March 2017.

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