

The City of Winnipeg

Audit Findings Report to the Audit Committee
For the year ended December 31, 2017

KPMG LLP

Prepared as of May 8, 2018 for a meeting to be held on May 15, 2018

kpmg.ca/audit

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Table of Contents

Executive summary	**3**
Materiality	**5**
Audit risks and results	**6**
Critical accounting estimates	**7**
Adjustments and differences	**10**
Significant accounting policies and practices	**11**
Financial statement presentation and disclosure	**12**
Other matters	**13**
Follow-up on prior year matters	**14**
How we deliver audit quality	**15**
Appendices	**16**

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, 2017.

Finalizing the audit

As of May 8, 2018, we have completed the audit of the consolidated financial statements, with the exception of certain remaining procedures, which include amongst others:

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

We will update the Audit Committee, and not solely the Chair (as required by professional standards), 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.

Audit risks and results

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 the risk of management override of controls.

See page 6

Audit materiality

Materiality has been determined based on total assets. We have determined materiality to be $31.4 million for the year ended December 31, 2017 (2016 – $30 million).

See page 5

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*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

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.

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

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

See Appendix 3.

Significant accounting policies and practices

Other than the change in accounting policy as noted in Note 2(p) of the consolidated financial statements, there have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

See page 11.

Materiality

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

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

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total assets, revenue, and expenses.	
Benchmark	Based on an estimate of total expenses at the end of the year. This benchmark is consistent with the prior year.	$1.57 billion
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 prior year's audit was $30 million.	$31.4 million
% of Benchmark	The corresponding percentage for the prior year's audit was 2%.	2%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was $22.3 million.	$23.5 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $1.5 million.	$1.57 million

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.

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 revenue recognition can be rebutted, but the risk of management override of control cannot, since 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.by overriding controls that otherwise appear to be operating effectively.

Significant financial reporting risks	Why	Our response and significant findings
Management override of controls	This is a presumed fraud risk for all audits. See details above 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 of significance to report.
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 details above 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 – Vouch a sample of school levy payments – Confirmation of significant government transfers for both operating purposes – Agree government transfers for capital purpose to agreements and eligible expenditure reports – Assess reasonableness of developer contribution revenue – Review allowance for property and business tax appeals for reasonableness – Review of allowance for tax arrears, ambulance receivables and other doubtful accounts receivable balances – Performed substantive analytical procedures over sales of services (transit, water, waste & sewage) and regulatory fees – Agreed other significant revenue and receivables outstanding at year-end to supporting documentation We assessed the impact of the 2017 changes in provincial funding relating to capital, transit operations and emergency response services. We obtained correspondence from the Province of Manitoba and support for eligible expenditures (if applicable), to support the provincial funding recorded in 2017 and the receivable balance from the Province as at December 31, 2017. As a result of these procedures, no matters were found of significance to report.

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	$222 million	The City has various future-oriented employee benefits available for qualified employees including compensated absences, retirement allowance program, vacation, workers' compensation 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 pension plans, compensated absences and the retirement allowance programs for the year ended December 31, 2017. 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. Actuarial gains and losses for the retirement allowance program are amortized on a straight-line bases over the expected average remaining service life of the employee group, which is estimated at 15.7 years in 2017 (15.3 – 2016). 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. In 2017, Management assessed disclosure by their actuaries that the 2014 valuation models were not updated for the 2014 assumptions, which the actuaries discovered when performing the 2017 valuation of the retirement allowance program. Management assessed the impact and concurred with the actuaries' recommendation to include as an adjustment to unamortized actuarial gain in 2017. We have reviewed management's assessment and concur with the accounting treatment. We confirm the amount accrued for workers compensation as at December 31, 2017 of $48M with the Workers Compensation Board of Manitoba. We perform substantive analytical procedures on the vacation accrual of $58M as at December 31, 2017.

Asset / liability	Balance	KPMG comment
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, 2017 (2016 – $49 million). Management has estimated the remaining capacity of the Brady Landfill to be 91% of its total capacity and has a remaining life of approximately 108 years, after which perpetual post-closure maintenance is required. **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	$2 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, 2017 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.
Allowance on receivables	$15.8 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 $15.8 million, reflecting an expected loss rate of 60% on property tax appeals and 65% on business tax appeals.
	$14.5 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,

Asset / liability	Balance	KPMG comment
		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 *27%* and has calculated the provision to be $14.5 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	$59 million	As at December 31, 2017, the City has recorded an expropriation liability of $59 million (2016 – $54 million) based on management's estimate of the cost of outstanding expropriations. Management performs 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. **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.

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 differences be corrected.

Corrected adjustments

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Significant accounting policies and practices

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

Changes

The Public Sector Accounting Board issued the following new standards, which required implementation for the year beginning January 1, 2018:

- PS 3210 Asset
- PS 3320 Contingent Assets
- PS 3390 Contractual Rights

As permitted in the standards, the City early adopted these standards for the year ended December 31, 2017. The following disclosures relate to these accounting policy changes:

- Changes to significant accounting policies and practices and the impact on the financial statements are disclosed in Note 2 (p) of the consolidated financial statements.
- Details of contractual rights related to developer contributions are disclosed in note 24 of the consolidated financial statements.

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. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	Adequate with enhancements recommended to management.
Application of accounting pronouncements issued but not yet effective	No concerns at this time regarding future implementation of accounting pronouncements issued but not yet effective.

Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Company's related parties, significant difficulties encountered during the audit, and disagreements with management.

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Internal Fraud	During our inquiries with management two internal fraud matters were brought to our attention. In both cases, the individuals involved in the internal fraud are no longer employed by the City. In one of the cases, the process in which the fraud occurred was reviewed by management and additional controls have been introduced to mitigate the risk of this occurring in the future. In the other case, management review controls caught the fraud matter on a timely basis and therefore are working as detective controls.

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
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 2017 4th Quarter status report, that details that 18 of the recommendations are completed and the final recommendation is targeted to be completed in the 2nd quarter of 2018. The remaining recommendation relates to the design management on projects and will be incorporated into the updated Asset Management Policy, Administrative Standard and Project Management Manual. **KPMG comments regarding effect on the audit** KPMG reviewed the final 2017 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 final recommendation is 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.
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, 2017, 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 2017 and obtained supporting documentation of the transaction and the authorization of the sales.

How we deliver audit quality



Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Background and professional standards

Appendix 4: Management representation letter

Appendix 5: New Auditor Reporting

Appendix 6: KPMG's Cyber Security Protocol

Appendix 7: Current developments

Appendix 8: Lean in Audit

Appendix 9: Data & analytics in audit

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:

- **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.
- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Audit Committee. The management representation letter is included in Appendix 4.
- **Fraud related inquiries** – professional standards required that we obtain your views on risk of fraud. We made similar inquiries to management as part of our planning process; responses to these assisted us in planning our overall audit strategy and audit approach accordingly.
    - What are your views about fraud risks in the City?
    - How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the City and internal controls that management has established to mitigate these 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 behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?

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: 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.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Appendix 4: Management representation letter

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

May 15, 2018

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, 2017. 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.

Going concern:

11) Our assessment that the City will continue as a going concern has taken into account all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date.

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.

Accounting Policies:

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

14) 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:

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

Provisions:

16) 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:

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

Contractual Agreements:

18) 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:

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

/rgd
2017-12-31 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.

Appendix 5: New Auditor Reporting

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).

What's new?

Highlights of the new auditors' report include:

Change	Applicability
Re-ordering of the auditors' report including moving opinion to the first section	Listed and non-listed entities
Expanded descriptions of management's, those charged with governance and auditors' responsibilities	Listed and non-listed entities
Disclosure of name of the engagement partner	Listed entities
Description of key audit matters (KAMs)	Applicable only when required by law or regulation or when the auditors is engaged to do so

When are the new requirements effective?

The new and revised standards in Canada will be effective for audits of financial statements for periods ending on or after December 15, 2018 with early application permitted.

Appendix 6: KPMG's Cyber Security Protocol

This summary is intended to provide management and Audit Committee members with some insight into KPMG's strategies and procedures regarding our cyber defence.

KPMG Global

KPMG Global provides managed security services for member firms which includes 24x7 monitoring and alerting services to identify potential attacks on our environment. We use a series of centrally managed firewalls among our network of member firms to identify and address potential attacks to member firms and to prevent attacks from spreading between member firms. This approach was in place during the Wanna Cry outbreak and was a critical element in our successful defence against that incident.

KPMG Global has also implemented enhanced email protection to address malware and attacks through email and we have implemented automated vulnerability detection services. This service scans equipment that is exposed to the Internet and identifies known vulnerabilities on a real-time basis. "Good housekeeping" is a central tenet of our approach and we continue to focus on known vulnerabilities and patching.

KPMG Global believes the cloud represents a secure environment when appropriately configured and monitored as a platform to deliver services. Our approach to secure the cloud includes deploying full-time, dedicated security and privacy resources, integrating the cloud platform into our managed security services to promote "good housekeeping," and deploying a continuous monitoring plan for each of the cloud platforms that we deploy to member firms and to our clients.

KPMG Global has invested heavily in enhancing the security of our environment, evidenced by the introduction of our Global Security Operations Centre, managed services and other enhancements to our cyber defence.

KPMG Canada Approach

- KPMG Canada does not currently use Office 365 or Cloud based email.
- Cloud environments provide robust security when properly configured, with proper password management.
- The Canadian firm's email servers are hosted in Canada and controlled and managed by KPMG Canada.
- In compliance with our global security controls, we enforce strong passwords that need to be renewed at regular intervals.
- We also maintain a specific IT security platform for the maintenance and management of privileged accounts.
- KPMG's Information Security Program is built on a comprehensive framework of policies, standards, and processes based on ISO 27001:2013.
- KPMG's security requirements are set out in Global Information Security Policies and Standards (GISP).
- The Canadian firm undergoes an internal audit every year to ensure compliance to key security controls in the GISP.
- Every three years, the Canadian firm goes through a Compliance Review conducted by a team from non-Canadian member firms.

Appendix 7: Current developments

The Public Sector Accounting Board of Canada is responsible for setting the accounting standards that municipalities are required to apply in preparing consolidated financial statements. **The following new or revised accounting standards approved by the Board may have an impact on your financial statements over the next two years as described below.** In addition, PSAB has various projects underway which may impact for financial reporting for future fiscal years. We encourage Management to review these standards and projects to determine the impact, if any, on the City's financial statements.

Summary of New and Revised Accounting Standards

There was no new guidance issued by the Board during 2017. PSAB previously issued the following sections that are effective in 2017 or future years:

Sections	Effective for fiscal years
Introduction to Public Sector Accounting Standards	Beginning on or after January 1, 2017
Related Party Disclosures, Section 2200	Beginning on or after April 1, 2017
Inter-entity Transactions, Section 3420	Beginning on or after April 1, 2017
Assets, Section 3210	**Beginning on or after April 1, 2017 ***
Contingent Assets, Section 3320	**Beginning on or after April 1, 2017 ***
Contractual Rights, Section 3380	**Beginning on or after April 1, 2017 ***
Restructuring Transactions, Section 3430	Beginning on or after April 1, 2018
Financial Instruments, Section PS3450	Beginning on or after April 1, 2019, with early implementation for government organizations transitioning from Part V of *the CPA Canada Handbook – Accounting*. Early adoption is permitted.
Portfolio Investments, Section PS3041	
Foreign Currency Translation, Section PS2601	
Financial Statement Presentation, Section PS1201	

*** Early adopted by Management of the City of Winnipeg and adopted for the year ending December 31, 2017.**

Restructuring Transactions

This section relates to accounting for assets and liabilities transferred in a restructuring transaction. It also differentiates between an acquisition (where a payment or other consideration approximates the fair value of the net assets) and a restructuring transaction (with little or no consideration). Restructuring transactions differ from a government transfer as restructuring transactions would result in the recipient assuming the related program or operating responsibility as opposed to a government transfer of a contributed asset which would be essentially a contribution.

Assets and liabilities are to be measured at their carrying amount in a restructuring transaction.

The section is effective for years commencing on or after April 1, 2018. Earlier adoption is encouraged.

PSAB projects underway

The following section discusses the major projects currently with the Public Sector Accounting Board that will likely have an impact on government organizations:

Asset Retirement Obligations

On March 9, 2017, PSAB issued an Exposure Draft for proposed Section PS 3280, Asset Retirement Obligations. The proposed new accounting standard would address the reporting of legal obligations associated with the retirement of certain tangible capital assets and solid waste landfill sites by public sector entities. The Exposure Draft proposes to withdraw existing Section PS 3270, Solid Waste Landfill Closure and Post-Closure Liability. The Exposure Draft closed for comment on June 15, 2017, and the stakeholder responses remain under review by the Public Sector Accounting Board. A final standard is expected to be released by PSAB during the third quarter of 2018.

The Exposure Draft proposes similar accounting for asset retirement obligations as in private sector accounting. An asset retirement obligation would be recognized when, as at the financial reporting date, ALL of the following criteria are met:

- there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
- the past transaction or event giving rise to the liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

Public sector entities would be required to capitalize asset retirement obligations associated with fully amortized tangible capital assets, except in the following instances:

- Asset retirement obligations associated with unrecognized tangible capital assets should be expensed;
- Asset retirement obligations associated with tangible capital assets no longer in productive use should be expensed.

The estimate of a liability should include costs directly attributable to asset retirement activities.

The new Section is expected to apply to fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. This Section may be applied retroactively or prospectively. If retroactive application is selected, a public sector entity may choose to apply certain transitional provisions provided in the Section.

Public Private Partnerships

The public private partnerships task force was established to assist PSAB in developing authoritative guidance specific to public private partnerships. The project will include two phases. The first phase will relate to specific issues, including project scope, recognition and measurement of public private partnerships and disclosure requirements. The second phase will focus on the accounting for public private partnerships.

On July 20, 2017, PSAB issued a Statement of Principles that proposed a new standard on public private partnerships which closed for comment October 17, 2017. PSAB is currently deliberating stakeholder feedback, and anticipates releasing an exposure draft in the second quarter of 2018.

Revenue

On May 1, 2017, PSAB issued an Exposure Draft for proposed Section PS 3400, Revenue that proposes a framework describing two categories of revenue – exchange and unilateral. The Exposure Draft closed for comment on August 15, 2017, and the stakeholder responses remain under review by the Public Sector Accounting Board. A final standard is expected to be released by PSAB during the third quarter of 2018.

Transactions which give rise to one or more performance obligations are considered to be exchange transactions. Performance obligations are defined as enforceable promises to provide goods or services to a payer as a result of exchange transactions. Revenue from an exchange transaction would be recognized when the public sector entity has satisfied the performance obligation(s), at a point in time or over a period of time.

If no performance obligations are present, the transaction would represent unilateral revenue, and be recognized when the public sector entity has the authority to claim or retain an inflow of economic resources and a past event gives rise to a claim of economic resources.

The proposed new section is expected to apply to fiscal years beginning on or after April 1, 2021, and be accounted for as a change in accounting policy applied retroactively with restatement of prior periods.

Employment Benefits and Pensions

PSAB has approved a project to review Sections PS 3250 Retirement benefits and PS 3255 Post-retirement benefits as a result of significant changes in types of pension plans and related accounting concepts. The project has been divided into two phases. The first phase will review measurement issues such as deferral of experience gains and losses and discount rate. The second phase will involve the accounting for new types of plans, including shared risk plans. Phase two will also include consideration on accounting for multiemployer defined benefit plans and vested sick leave benefits.

Two invitations to comment have been issued related to deferral provisions and discount rates. Government organizations should monitor this project as the eventual standard will likely have significant implications for the accounting for pension plans and employee benefits.

Concepts Underlying Financial Performance

The objective of this project is to review and amend, if necessary, the conceptual framework of public sector accounting standards. For government organizations, the most important component of this project is significant proposed changes in financial statement presentation. A Statement of Principles: “A Revised Reporting Model for the Canadian Public Sector” will be issued in the second quarter of 2018. Government organizations should monitor this project as the eventual standards will have a significant impact on their financial statements.

Appendix 8: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our new innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process-oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.

How it works

Lean in Audit employs three key Lean techniques:

1. Lean training

- Provide basic Lean training and equip our teams with a new Lean mind-set to improve quality, value and productivity.

2. Interactive workshops

- Perform interactive workshops to conduct walkthroughs of selected financial processes providing end to end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

- Quick and pragmatic insight report including your team's immediate quick win actions and prioritized opportunities to realize benefit.

Facilitated Workshop



Appendix 9: Data & analytics in audit

Turning data into value

KPMG continues to make significant investments in our Data & Analytics (D&A) capabilities to help enhance audit quality and provide actionable insight to our clients by unlocking the rich information that entities hold.

When D&A is applied to the audit, it enables us to test complete data populations and understand the business reasons behind outliers and anomalies. Advancements in D&A tools allow us to analyze data at more granular levels, focusing on higher risk areas of the audit and developing insights you can then leverage to improve compliance, potentially uncover fraud, manage risk and more.

KPMG is enhancing the audit

The combination of our proven industry experience, technical know-how and external data allows us to focus our audit on the key risks, while providing relevant insights of value to you.

For the audit

Audit quality

- Automated testing of 100% of the population
- Focuses manual audit effort on key exceptions and identified risk areas

For the City

Actionable insight

- Helping you see your operations from a different perspective
- How effectively is you're the City using your systems?

kpmg.ca/audit



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