KPMG

The City of Winnipeg

Audit Findings Report for the year ended December 31, 2018

KPMG LLP

For a meeting to be held on May 7, 2019

kpmg.ca/audit



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Executive summary



Purpose and finalizing the audit

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, 2018.

As of April 30, 2019, we have completed the audit of the financial statements of the City, with the exception of certain remaining procedures, which include amongst others:

- Obtaining report from the City's Labour Relations Manager on instances of employee related matters;
- 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 Audit Committee's approval of the consolidated financial statements.

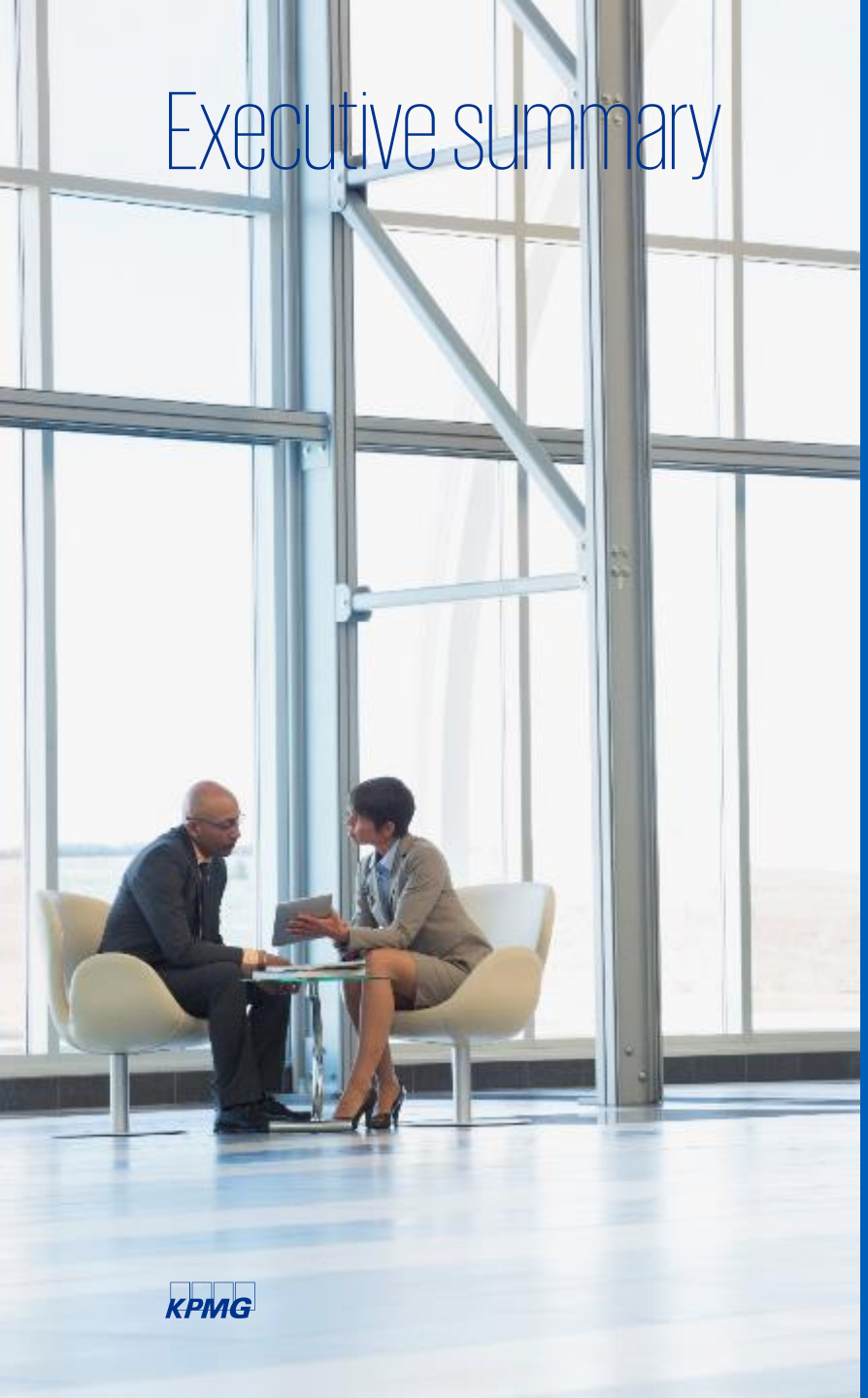
Audit and business risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. These included:

- Management override of controls
- Revenue recognition
- Tangible capital assets
- Salaries, benefit expenses and accrued employee benefits

See pages 7 – 10.

Executive summary



Audit materiality

Materiality had been determined based on expenses. We have determined materiality to be $31.8 million.

See page 6.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in Internal Control over Financial Reporting.

Critical accounting estimates

Overall we are satisfied with the reasonability of **critical accounting estimates** taken. The critical area of estimate relates to the following:

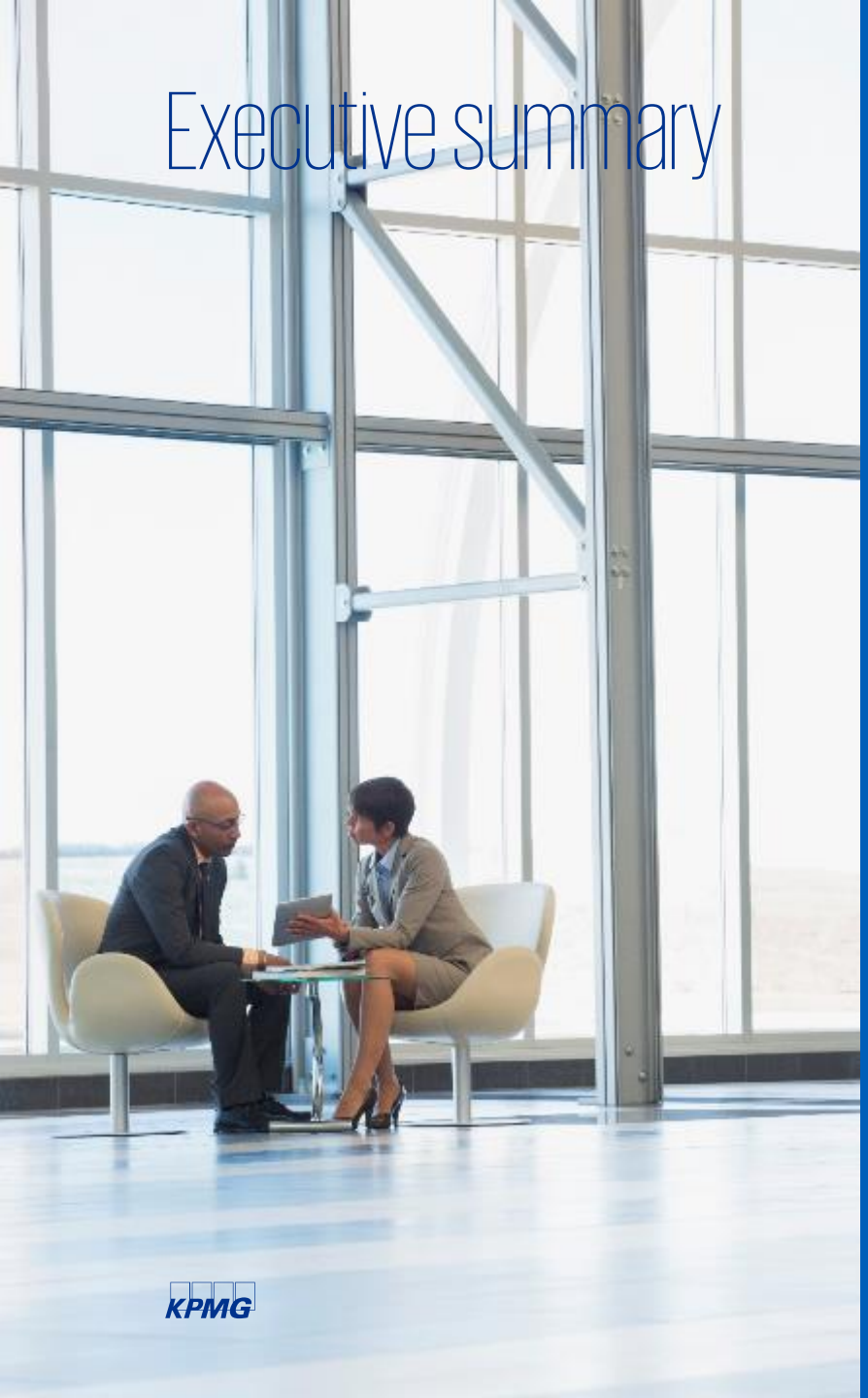
- Accrued employee benefits
- Expropriation liability
- Landfill liabilities
- Allowances on receivables
- Legal liabilities

See pages 11 – 15.

Independence & quality control

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.

Executive summary



Adjustments and differences

We did not identify differences that remain uncorrected.

In addition, we did not identify any differences that were adjusted in the consolidated financial statements.

Current developments and audit trends

Please refer to pages 21 to 24 for accounting and auditing changes relevant to the City and relevant audit trends.

Financial statement presentation and disclosure

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

Significant accounting policies and practices

Other than the change in accounting policy as noted in Note 2(q) 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 16.

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.

Materiality

Materiality Benchmark

Total prior year expenses

$1.59 billion

(2017: $1.57 billion)

Materiality

$31.8 million

2% of expenses

(2017: $31.4 M, 2% of revenue)



Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.



Audit risks and other areas of focus

Professional Requirements

Fraud risk from management override of controls

Why is it significant?

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.



Our audit approach

As the risk is not rebuttable, our audit methodology incorporates 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.



Audit risks and other areas of focus

Professional Requirements

Fraud risk from revenue recognition

Why is it significant?

This is a presumed fraud risk.



Our audit approach

We tested the design and implementation of selected fraud related relevant controls and performing substantive procedures including the following:

- Tested and evaluated design and operating effectiveness of key controls over significant revenue accounts
- Assessed the application of the tax roll assessment and taxation rates as budgeted by the Council
- Examined the taxes receivable year-end reconciliation to the MANTA system
- Vouched a sample of school levy payments
- Agreed government transfers for capital purpose to agreements and eligible expenditure reports
- Assessed reasonableness of developer contribution revenue
- Reviewed allowances for property and business tax appeals, 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

We assessed the impact of the 2018 changes in provincial funding relating to capital, transit operations and emergency response services. We vouched cash receipts and support for eligible expenditures, as applicable, to support the provincial funding recorded in 2018 and the receivable balance from the Province as at December 31, 2018.

As a result of these procedures, no matters were found of significance to report.



Audit risks and other areas of focus

Professional Requirements

Tangible capital assets

Why is it significant?

Based on the significance of tangible capital asset ($7 billion at December 31, 2018) and acquisitions of $614 million during the year, the completeness, existence and accuracy, is considered a focus area for our audit.



Our audit approach

We obtained and reviewed a sample of invoices over significant projects supporting the capital asset additions and assessed proper cut-off of all the significant capital construction projects to the end of December 31, 2018.

We assessed the reasonableness of the amortization period (useful lives) of tangible capital assets and recalculated amortization expense for a sample of assets. In addition, we assessed the risk of material misstatement relating to management using the half year rule for calculating amortization of an asset in its first year of use, verses the date the asset is put into use.

We obtained and assessed reasonableness of developer contributions, involving roads and underground networks contributed to the City, which are capitalized at their fair value at the time of receipt.

Relating to the Southwest Rapid Transitway and Pembina Highway Underpass, we obtained the new service concession arrangement agreement with Plenary Roads Winnipeg Transitway TP Inc. and PCL BRT (Winnipeg) GP Inc. to design, build, finance, operate and maintain these assets. We assessed reasonableness of the current obligation of $35.5M and the note disclosure over this project.

As a result of these procedures, no matters were found of significance to report.



Audit risks and other areas of focus

Professional Requirements

Salaries, benefits expense and accrued employee benefits

Why is it significant?

Based on the significance of salaries and benefit expense to the City, the completeness, existence and accuracy of salaries and accrued employee benefits is considered a focus area for our audit.



Our audit approach

We performed a combined approach over salaries and benefits testing selected relevant controls performed by the Corporate Payroll department and controls performed by the City departments, involving management review, reconciliations and review of payroll exception reports.

We performed substantive analytical procedures over salary expense and employee benefit costs by department comparing the actual expense to the budgeted expense.

We test a sample of City employee's annual salary per the payroll system to the employer T4 summary.

We performed substantive testing over accrued employee benefits, including retirement allowance, vacation accrual, workers' compensation and compensated absences. See more detail on slide 11.

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 consolidated financial statements about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities within the next financial year. Generally, these are considered to be “critical accounting estimates.”

We have summarized our assessment of the subjective areas, in addition to the items noted earlier in this report.

Asset / liability	Balance
Accrued employee benefits	$228 million (2017 - $222 million)

KPMG comments



The City has various future-oriented employee benefits available for qualified employees including retirement allowance, compensated absences, vacation accrual, 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, 2018.

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. The assumptions include the discount rate on the retirement allowance liability of 3.25% (2017 - 3%) and the general increase in pay rate of 2.5% to 3% (2017 – 2.5% to 3%).

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 2018 (15.7 – 2017).

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.

We confirm the amount accrued for workers compensation as at December 31, 2018 of $47M with the Workers Compensation Board of Manitoba.

We perform substantive analytical procedures on the vacation accrual of $60M as at December 31, 2018.



Critical accounting estimates

Asset / liability	Balance
Expropriation	$54 million (2017 - $59 million)

KPMG comments

As at December 31, 2018, the City has recorded an expropriation liability of $54 million (2017 – $59 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 following:

- the Notice of Possession expiry period or,
- the date of an "Enter to Construct" agreement, when applicable

In 2018, two significant expropriations occurred relating to the South Winnipeg Recreation Campus and the Southwest Transit Corridor Project.

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.





Critical accounting estimates

Asset / liability	Balance
Landfill liability	$50 million (2017 - $49 million)

KPMG comments

The City operates the Brady Road Resource Management Facility (Brady) 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 $50 million as at December 31, 2018 (2017 – $49 million).

Management has estimated the remaining capacity of the Brady 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.





Critical accounting estimates

Asset / liability	Balance
Allowances and provisions	Provision for property assessment appeals – $20 million Allowance for receivables for ambulance services - $16.2 million

KPMG comments

Provision 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 adjusted their method of projecting appeal losses. The projection still uses historical appeal data but the projected tax loss is multiplied by the tax loss ratio, which is the actual tax loss divided by the original tax amounts. The new method projects the appeal losses based on actual values, compared to the old method that projects the appeal losses based on the most likely outcome of the current appeals.

Using the revised methodology, Management calculated a best estimate for the appeal liability of approximately $20 million (2017 – $15.8 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's assessment resulted in a required provision of $16.2 million (2017 - $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.



Critical accounting estimates

Asset / liability	Balance
Legal liabilities	$3 million (2017 - $2 million)

KPMG comments

The City has contingent liabilities relating to lawsuits against the City.

Management has reviewed all significant claims against the City outstanding at December 31, 2018 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.



Significant accounting policies and practices

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

Public Sector Accounting Board issued the following new standards, which were implemented by the City for the year beginning January 1, 2018:

- PS 2200, *Related party disclosures* - This section defines a related party and establishes disclosures required for related party transactions.

- PS 3420, *Inter-entity transactions* - PS 3420 establishes additional disclosure standards for situations when there are transactions with related parties. PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Transactions between related parties are measured at the carrying amount except in specific circumstances. The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.

Management has disclosed the accounting policy change and the impact on the financial statements in Note 2 (q) of the consolidated financial statements.

After completing a detailed analysis of both new standards and an analysis of the impact on the City, management concluded that the adoption had no material impact on the consolidated financial statements.

We obtained management's analysis and concur with their conclusion and the related disclosure in the consolidated financial statements.

Value added services

Lean in Audit workshop

In January 2019, we facilitated a Lean in Audit workshop on the City's payable cycle in the Municipal Accommodation department.

Delivered report on mapping out the current process, including with pain points/ and waste identified and 18 improvement opportunities.



Assessment on completeness of property tax assessments related to renovations

To assess the risk of lost property tax revenue, we performed an analysis to identify time lags between when a building is constructed or renovated, the related permit is closed, and when the property is assessed.

The Assessment and Taxation Department reviewed 18 properties and determined there was not a significant tax loss but that there could be improvements in the process.

In response, the Assessment and Taxation Department will be undertaking:

- Quarterly meetings with Assessment Services for reporting on ongoing building projects and estimated completions.
- A departmental internal audit of the assessment process (targeting commercial properties).

Ongoing accounting assistance

Through-out the year we have discussions with management on complex accounting issues or new accounting standards (PS 2200), review management's assessment and conclude on their recommendation on a timely basis.

City of Winnipeg 2018 Awards

During 2018 and 2019, the City received three awards from the Government Finance Officers Association (GFOA):

Canadian Award for Financial Reporting Achievement

The Canadian award for Financial Reporting Program was established to encourage municipal governments throughout Canada to publish high-quality financial reports and to provide peer recognition and technical guidance for officials preparing these reports. Its attainment represents a significant accomplishment by a government and its management.

Distinguished Budget Presentation Award

This award is the highest form of recognition in governmental budgeting. Its attainment represents a significant achievement by your organization.

Award for Excellence in Government Finance

This award recognizes the Capital Projects Dashboard initiative as a contribution to the practice of government finance that exemplifies outstanding financial management.

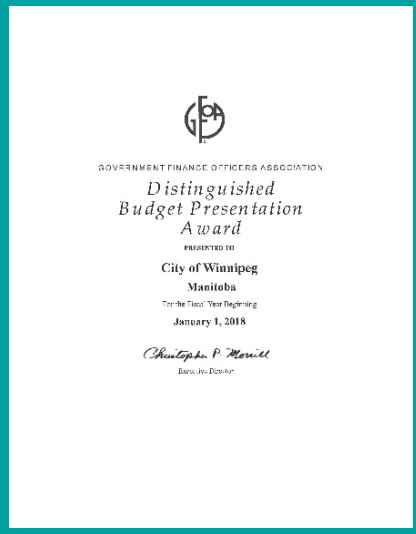

Government Finance Officers Association
of the United States and Canada

CANADIAN AWARD FOR
FINANCIAL REPORTING ACHIEVEMENT

CORPORATE FINANCE DEPARTMENT

THE CITY OF WINNIPEG MANITOBA

DECEMBER 31, 2018


GOVERNMENT FINANCE OFFICERS ASSOCIATION

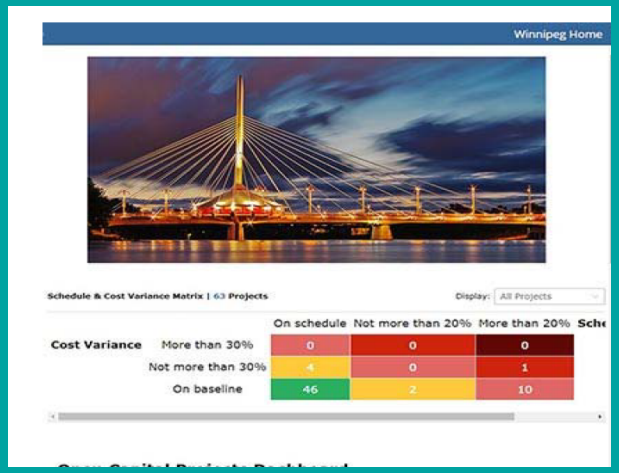
Distinguished
Budget Presentation
Award

PRESENTED TO

City of Winnipeg
Manitoba

For the Fiscal Year Beginning

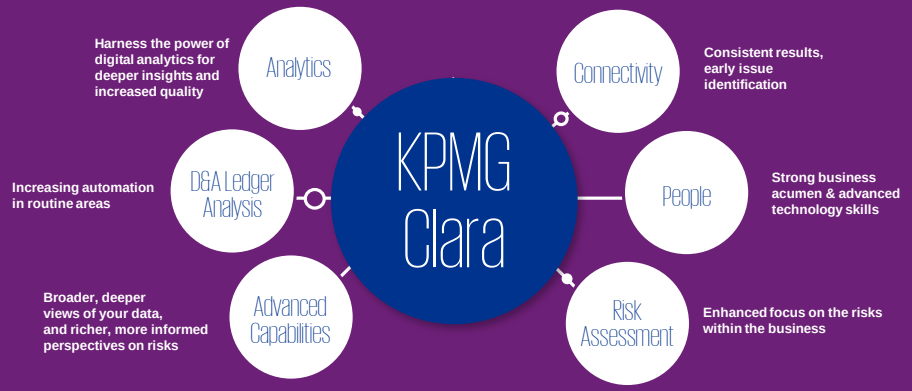
January 1, 2018



The audit of today, tomorrow & the future

As part of KPMG's technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with the ability to perform deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts and journal entries.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.

The audit of today, tomorrow & the future

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and our alliances with technology firms including Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit the Entity in the future.

We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

Technology under development

Tools	Benefit to audit
Artificial Intelligence Financial statement disclosure analysis Tool	Our artificial intelligence capability will compare the Entity's financial statement disclosures against existing, new, and modified accounting guidance and pronouncements, in addition to comparing them against peer companies. We'll be able to share with you not only how your disclosures compare to the requirements but also to your peer group.
Dynamic Risk Assessment	Dynamic Risk Assessment (DRA) gives us a more sophisticated, forward-looking and multi-dimensional approach to assessing audit risk. Using network theory, DRA considers not just the traditional, two-dimensional view of severity and likelihood but also how interconnected the risks are, how fast they may emerge and how systemic they are. It will provide a holistic enterprise-wide assessment of your risks, ensuring we have identified the relevant risk exposures that need to be incorporated into our audit approach.
Sentiment Analysis	Sentiment analysis is about scanning newsfeeds, social media and public data to get a real-time view of your brands while flagging emerging risks in the process. This allows us to highlight trends globally, and can also help to identify hotspots by asset or geography. If we see a spike in 'noise,' we investigate and discuss with you, as well as make an assessment of the impact on our audit.
Optical Contract Reader & Analysis Tool	Our Optical Contract Reader & Analysis Tool provides us with capabilities to improve the effectiveness and efficiency of the contract review process. This works by automating the ingestion of contracts and related source documents and extracting and summarizing key terms for the audit engagement team's consideration, in turn providing increased coverage of the population and resulting in greater audit quality. The tool can also be used to read unstructured source documents in PDF format, extracting certain data such as invoice date, invoice number, account number, order number and total amount. This data is then compiled and compared to structured data from the general ledger. Time savings generated from this intelligent automation solution will allow our team to focus their efforts on areas of greater risk.
Robotic Process Automation (RPA)	This application of cognitive computing technology allows our team to configure computer software—or a "robot"—to capture and interpret existing applications for processing a transaction, manipulating data, triggering responses, and communicating with other digital systems.

Current developments and audit trends

Please visit KPMG's Audit Committee Institute (ACI) / Current Developments page for current developments in IFRS, Canadian securities matters, Canadian auditing other professional standards and US accounting, auditing and regulatory matters. The following is a summary of the current developments that are relevant to the Company:

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG audit trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	link to accelerate report
The Blockchain shift will be seismic	Blockchain technology is a focused disruptor of the very foundations of external and internal audit: financial recordkeeping and reporting. This Audit Point of View article offers insight on how blockchain technology is impacting business and what audit committees should be thinking about to prepare for certain risks.	link to blockchain report

Current developments and audit trends

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

Standard	Summary and implications
Section PS 3430, *Restructuring Transactions*	This Handbook section is 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. • The new standard requires the transferor to 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. • The new standard is not expected to have a material impact on the City's financial statements.
Section PS 3400, *Revenue*	The Public Sector Accounting Board (PSAB) approved Handbook Section 3400, *Revenue* in June 2018. Section 3400 will be effective for fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted. The main features of the new standard are as follows: • The focus is on two main areas of revenue: • — exchange transactions; and • — unilateral (non-exchange) transactions. • The presence of performance obligations for the public sector entity receiving the revenue is the distinguishing feature of an exchange transaction. • Performance obligations are enforceable promises to provide goods or services. • An exchange transaction is evaluated to identify which goods or services are distinct and accounted for as a separate performance obligation. • Revenue from an exchange transaction is recognized as the public sector entity satisfies a performance obligation. • Unilateral revenues are recognized when there is the authority and a past event that gives rise to a claim of economic resources. • When applying PSAB's general recognition criteria, revenue is not reduced when collectability (associated with credit risk) is uncertain.

Current developments and audit trends

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

Standard	Summary and implications
Section PS 3280, *Asset Retirement Obligations*	PSAB approved Handbook Section 3280, *Asset Retirement Obligations*, in March 2018. Section 3280 will be effective for fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted. The main features of the new standard are as follows: • Retirement obligations associated with tangible capital assets result from legal, constructive and equitable obligations. • Retirement costs increase the carrying amount of the related tangible capital asset or a component thereof and are expensed in a rational and systematic manner. • Subsequent remeasurement of the liability can result in either a change in the carrying amount of the related tangible capital asset or a component thereof, or an expense, depending on the nature of the remeasurement and whether the asset remains in productive use. • Retirement obligations associated with tangible capital assets include post-retirement operation, maintenance and monitoring. • A present value technique is often the best method with which to estimate the liability.
Employee Benefits Project	An Invitation to Comment, "*Employment Benefits: Deferral Provisions in Sections PS 3250 and PS 3255*", was issued on November 25, 2016. A second Invitation to Comment, "*Employment Benefits: Discount Rate Guidance in Section PS 3250*" was issued in November 2017. A third invitation to comment, "*Employment Benefits: Non-Traditional Pension Plans*" was issued in October 2018. PSAB will deliberate the comments received on all three Invitations to Comment into 2019. The key issues the *Employee Benefits* Project will address are: • the deferral provisions in the standards. • the discount rate guidance for determining accrued benefit obligation. • the accounting for non-traditional employment benefit plans, which includes, but not limited to, target benefit plans or shared risk plans. • accounting for multi-employer defined benefit plans. • other issues that may arise throughout the project.

Current developments and audit trends

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

Standard	Summary and implications
Statement of Principles, *Public Private Partnerships*	On July 20, 2017, PSAB issued a Statement of Principles that proposes a new standard on public private partnerships. PSAB has deliberated the comments received on the Statement of Principles, with an Exposure Draft expected to be approved in the fourth quarter of 2018 for release in the first quarter of 2019. The main features of the proposals in the Statement of Principles are as follows: • Public private partnership infrastructure is procured by the public sector entity using a private sector partner whose obligations include: a requirement to build, acquire, improve or refurbish; finance; and maintain and/or operate the infrastructure. • Public private partnership infrastructure is recognized as an asset where the public sector entity controls the infrastructure. • A liability is recognized where the public private partnership gives rise to an obligation to the public sector entity to sacrifice future economic benefits. • Infrastructure and the associated liability are measured initially at cost.

Appendices



- Appendix 1: Audit quality and risk management
- Appendix 2: KPMG's audit approach and methodology
- Appendix 3: Lean in Audit™
- Appendix 4: Required Communications
- Appendix 5: Draft management representation letter
- Appendix 6: Cybersecurity risk

Appendix 1: 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, 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.

We do not offer services that would impair our independence.



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.

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 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.

Collaboration in the audit
A dedicated KPMG Audit home page gives you real-time access to information, insights and alerts from your engagement team

Issue identification
Continuous updates on audit progress, risks and findings before issues become events

Data-driven risk assessment
Automated identification of transactions with unexpected or unusual account combinations — helping focus on higher risk transactions and outliers



Deep industry insights
Bringing intelligence and clarity to complex issues, regulations and standards

Analysis of complete populations
Powerful analysis to quickly screen, sort and filter 100% of your journal entries based on high-risk attributes

Reporting
Interactive reporting of unusual patterns and trends with the ability to drill down to individual transactions

Appendix 3: Lean in Audit™

An innovative approach leading to enhanced value and quality

Our 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 management. For example, we may identify control gaps and potential process improvement areas, while management has 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 mindset 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 immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 4: 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 and any subsequent amendment letters.

Audit findings report

As included in this report.

Management representation letter

In accordance with professional standards, a copy of the management representation letter is provided to the Audit Committee. See appendix 5.

Required inquiries

Professional standards require that we obtain your views on risk of fraud and other matters. We make similar inquiries of management as part of our planning process as part of our overall audit strategy and audit approach.

- 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?

Appendix 5: Management representation letter

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

May 7, 2019

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, 2018. 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 PS 2200.

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
2018-12-31 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 6: Cybersecurity risk

Why is Phishing still an issue?



- **A Phishing attack is emails that are sent to get some someone to have a specific response, such as providing their passwords, clicking on a link, or initiating a money transfer**
- **In 2016 an Australian aircraft parts company lost $54 million due to a Phishing attack**
- **A January 2018 report states that 67% of businesses saw some form of Phishing attack in 2017**

What is Spear Phishing

- **Spear Phishing is more specific to the target (your organization)**
  - Attackers are using social media to create personalized directed attacks
  - Can appear to come from your organization or ARE from your organization
  - Uses specific names for realism, name of CEO, CFO, etc.

Other forms of Phishing

- **Part of the newest attack is called Smishing for SMS Phishing (Phishing via text messaging)**
  - A messaging telling you that your service provider cannot process your payment and your service will be turned off unless you enter your personal information
- **Adults 55+ recognize phishing more than Millennials**
- **Phishing attacks exploit an organization's lack of security awareness**
- **Continuous security awareness training is the key!**

Phishing

What should you do?

- **Perform security awareness training:**
  - Educate users that the most successful phishing attacks are disguised as something an employee was expecting
  - Only open "safer" attachments (PDF, DOC, XLS, PPT)
    - The EXE, VBS, ZIP, PS files are likely malicious…
  - Look for grammatical errors and re-read the FROM fields
    - **@company.co** looks very similar to **@company.ca**
  - Avoid clicking on links. Go to Google and find the site from there
  - Legitimate companies normally do not sent out threatening emails
  - If it seems suspicious it probably is! Send it to IT for review
- **Perform simulated Phishing testing to evaluate how your training program is operating**
- **Look at aggressive white/black listing for your spam filters**

Appendix 6: Cybersecurity risk

Current Cyber risks and attacks

Financially Sophisticated Cyber Criminals

- $1.5 Trillion in 2018 - $6 Trillion by 2021
- If cybercrime was a country it would have the 13th highest GDP at $1.5 Trillion – And 4th by 2021

Denial of Service attacks have increased in frequency, potency and sophistication.

- In 2016 it cost $15 to $50/hr to have hackers take a site off-line for an hour

Self-learning Artificial Intelligence

- Malware that silently learns its environment, disguising itself and carefully choosing its actions
- Automated "Sleeper" RansomWare

Increase in IoT and IIoT attacks

- How much would you pay to *unlock* your data, thermostat, Smart TV, mobile phone, pacemaker, power gird?

Nation States Targeting Private Sector

- Corporate espionage of private sector for competitive advantage
- 'Hacked' Out-of-the-Box hardware and software

Human Error from Increasing Complexity

- Opening malicious links or email attachments
- Incomplete backups
- Operational failures in Cyber Incident Response
- Accidental data exposures

What is the message to remember?

Build your Defensible Position

- Identify your assets, risks and threats
- Identify how you compare to good security practice, based on your assets, risks and threats
- Put a plan in place to formally mitigate or accept the risks

A good Defensible Position will help you say:

- We followed leading security practice (NIST, ISF, ISO27001/2)
- We regularly reviewed our risks, keeping up to date with the latest threats and vulnerabilities
- We had strong technical controls
- We had good security awareness
- We conducted Cyber breach simulation exercises
- We used independent experts to help improve our security
- We dealt with the incident in a timely and forensically sound manner
- We mapped these against prevention, detection and reaction to security incidents

How can KPMG help?

- Companies talk about being a leader in information security, in Forester Research's ranking of Information Security Consulting Services Companies: KPMG was a leader in 2016 report and IS the leader in 2017 report.
- KPMG has a dedicated Cyber team of 40+ practitioners who can challenge management's thinking and approach. Our experts bring leading-edge thinking in Cyber Security consulting and can use that knowledge to help our clients' internal teams. We can benchmark your current Cyber Security posture against good practice to give you a view of how you compare to your competitors and the wider market.
- KPMG's Cyber Team offers a range of services to help your organization be in a Defensible Position to prevent detect and respond to cyber threats. We believe that cyber security should be about what you can do – not what you can't.
- Our full lifecycle of services cover all aspects of cyber security from the boardroom through to the back office, including cyber security strategy to breach response.



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