KPMG

The City of Winnipeg

Audit Findings Report for the year ended December 31, 2019

KPMG LLP

For a meeting to be held on May 22, 2020

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, 2019.

As of May 22, 2020, we have completed the audit of the financial statements of the City, with the exception of certain remaining procedures, which include amongst others:

- Updating our subsequent event procedures to the date of our audit report, including the assessment of the COVID-19 pandemic impact on the City;
- 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.

We will discuss with you significant financial reporting risks including revenue recognition and presumed risk of management override of controls.

In addition, we will discuss with you other areas of audit focus including tangible capital assets and employee related expenses and accruals.

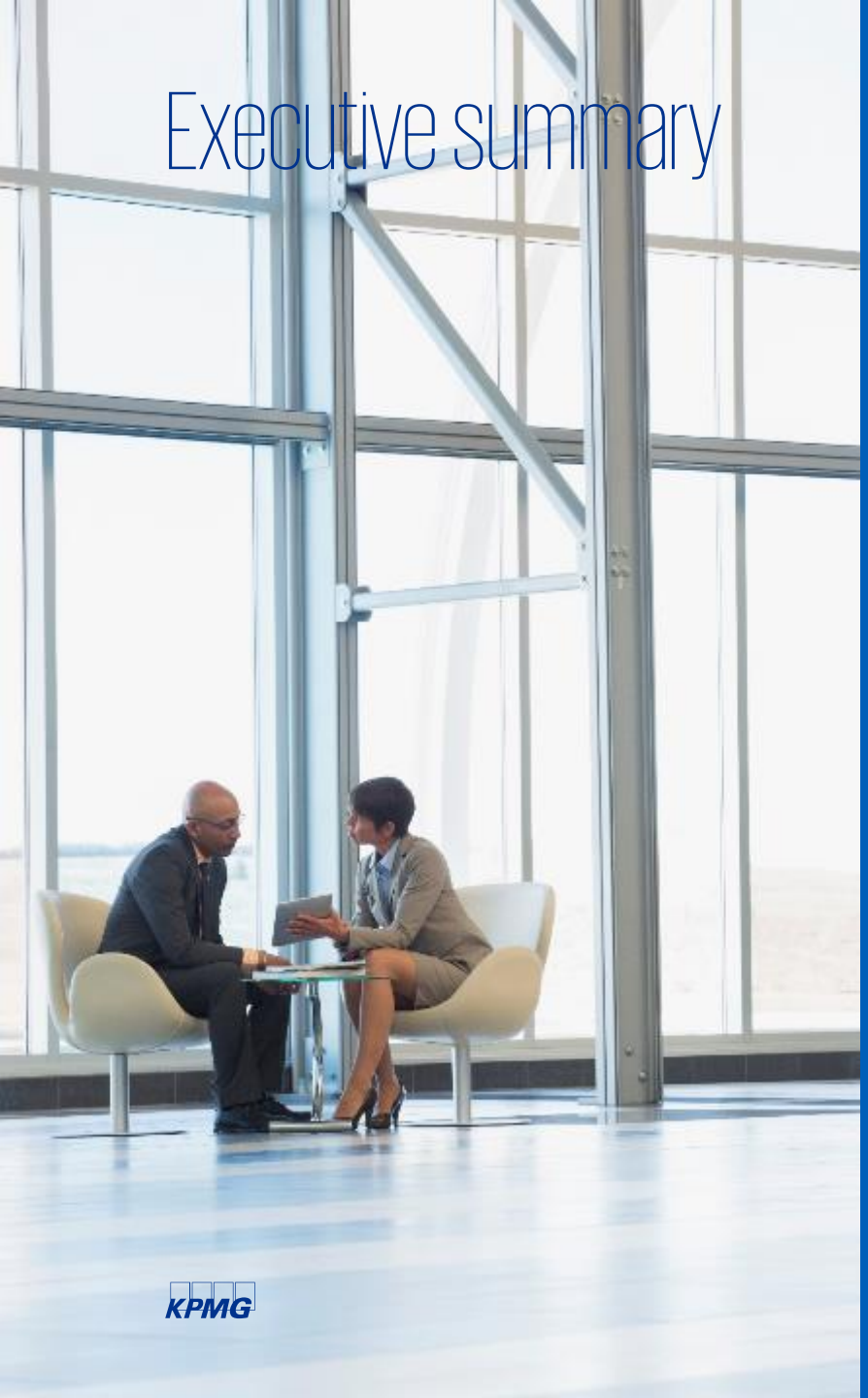
See pages 7 – 10.

Audit response to COVID-19 Pandemic

Our audit included procedures in response to the COVID-19 Pandemic occurring subsequent to the City's year-end.

See pages 17 – 19 for details and findings.

Executive summary



Audit materiality

Materiality had been determined based on expenses. We have determined materiality to be $32.4 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.

Areas involving management estimates

We will discuss with you the reasonability of **areas involving management estimates** in the following areas:

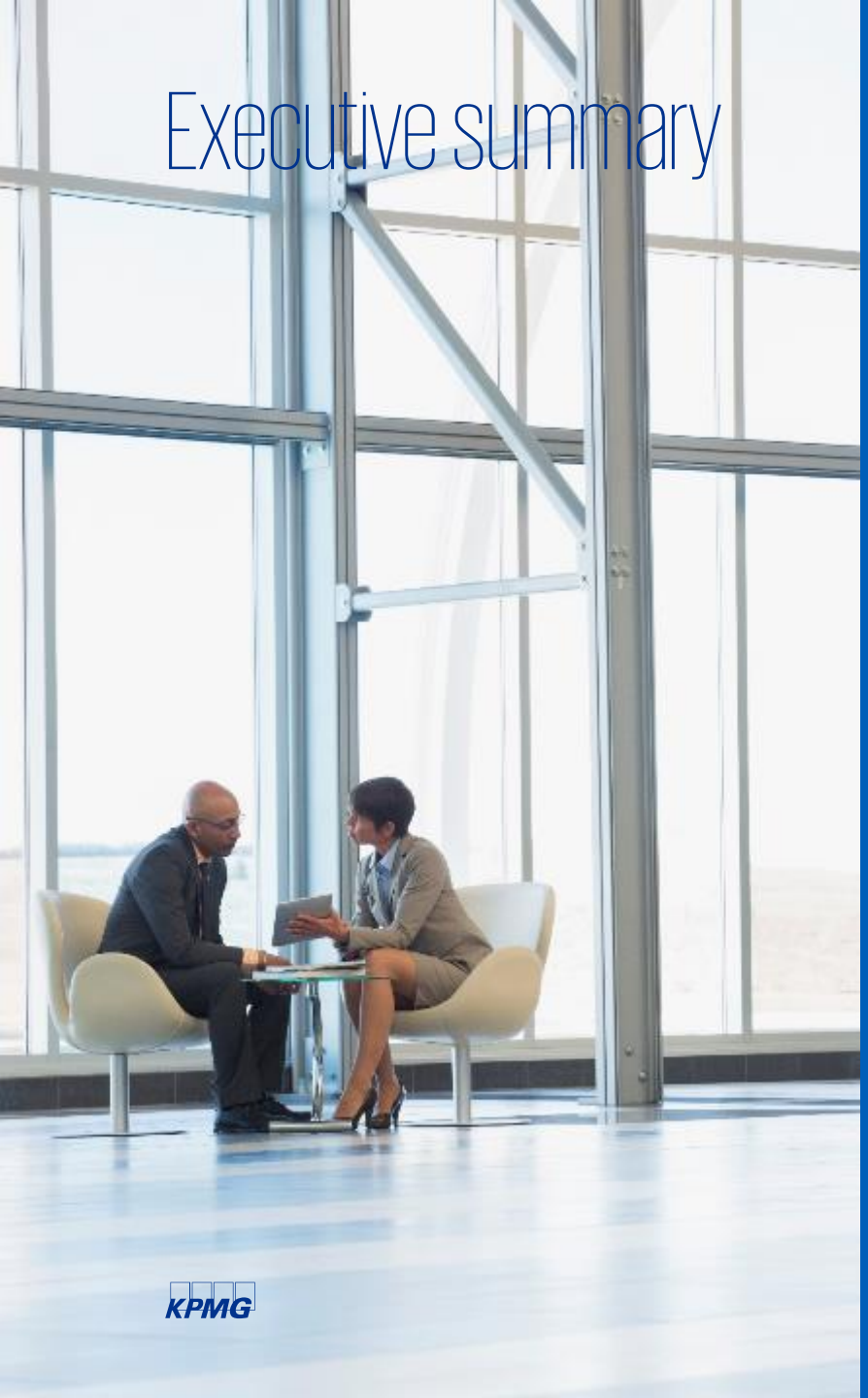
- Employee benefits
- Provisions for landfills & expropriations
- Allowances for accounts receivable & provisions for assessment appeals
- Legal liabilities

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.

We identified one difference that was adjusted in the consolidated financial statements. See Appendix 6.

Audit Quality Indicators

We have reviewed the audit quality indicators agreed upon with management. 4 of the 4 indicators were marked as green.

Current developments and audit trends

Please refer to pages 20 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

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

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

$1.62 billion

(2018: $1.59 billion)

Materiality

$32.4 million

2% of expenses

(2018: $31.8 M, 2% of expenses)



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

We performed the following required procedures under professional standards:

- Agreed selected journal entries to supporting documents to assess whether the journal entries were properly authorized.
- Performed a retrospective review of all significant accounting estimates including:
    - Employee benefits
    - Provisions for landfills and expropriations
    - Assessment appeals
    - Useful lives of tangible capital assets
- Evaluated the business rationale of any 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
- Agreed federal government transfers for capital purposes to agreements and eligible expenditure reports, testing a sample of the capital expenditures
- Assessed provincial government transfers relating to capital and operating through confirmations with the Province, review of agreements with the Province and review of eligible expenditure reports
- 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 and performed an analytical review on the tax receivable balance at year-end
- Vouched a sample of school levy payments
- 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

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



Audit risks and other areas of focus

Other area of audit focus

Tangible capital assets

Based on the significance of tangible capital assets amounting to $7.6 billion at December 31, 2019 ($7 billion - 2018) and additions of $873 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, 2019.

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.

Southwest Rapid Transitway (Stage 2) and Pembina Highway Underpass Project (SWRT project)

The total estimated cost of the SWRT Project is $420.9 million of which $361 million was capitalized as at December 31, 2019. This tangible capital asset was put into use in October 2019 when the project reached substantial completion. Management began amortizing the asset on July 1, 2019 (using the half year rule) resulting in amortization expense being overstated by $1.8 million, which was subsequently adjusted in the 2019 financial statements.

We obtained the service concession arrangement agreement for the SWRT project 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 $138.5M (2018 - $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

Other area of audit focus

Employee related expenses and accruals

Based on the significance of employee related expenses to the City that comprise $899 million or 53% of the City's total expenditures in 2019, the completeness, existence and accuracy of both employee related expenses and accruals are 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.



Areas involving management 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.

We have summarized our assessment of the subjective areas.

Asset / liability	Balance
Accrued employee benefits	$239 million (2018 - $228 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, 2019.

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 2.6% (2018 – 3.25%) and the general increase in pay rate of 2.5% to 3.0%, same as the previous year.

Actuarial gains and losses for the retirement allowance program are amortized on a straight-line basis over the expected average remaining service life of the employee group, which is estimated at 15.7 years in 2019 (15.7 – 2018).

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, 2019 of $52.6M (2018 - $47M) with the Workers Compensation Board of Manitoba.
- We perform substantive analytical procedures on the vacation accrual of $61.6M as at December 31, 2019 (2018 - $60.4M).





Areas involving management estimates

Asset / liability	Balance
Expropriation	$56 million (2018 - $54.5 million)

KPMG comments

As at December 31, 2019, the City has recorded an expropriation liability of $56 million (2018 – $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 following:

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

The majority of the expropriation liability relates to on-going capital projects from previous years where the expropriation of land is still being negotiated. Management has updated their estimate of the cost of these outstanding expropriations at year-end.

New expropriation liabilities added during 2019 related to the Pembina - Grant to Osborne Rehabilitation Project and the Fermor Reconstruction 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.





Areas involving management estimates

Asset / liability	Balance
Landfill liability	$54.5 million (2018 - $50 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 landfill liability, which is based on the present value of estimated future expenses, adjusted for estimated inflation, and is charged to expenses as the landfill site's capacity is used.

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 $54.5 million as at December 31, 2019 (2018 – $50 million).

Management has estimated the remaining capacity of the Brady to be 90% of its total capacity and has a remaining life of approximately 100 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.





Areas involving management estimates

Asset / liability	Balance
Allowances and provisions	Provision for property assessment appeals – $18.6 million Allowance for receivables for ambulance services – $ 13.8 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's projection uses historical appeal data, multiplying the projected tax loss by the tax loss ratio (the actual tax loss divided by the original tax amounts).

Management calculated a best estimate for the appeal liability of approximately $18.6 million (2018 – $20 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 $13.8 million (2018 - $16.2 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.





Areas involving management estimates

Asset / liability	Balance
Legal liabilities	$3.7 million (2018 - $3 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, 2019 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 financial statement disclosure for contingent liabilities (Note 15 b) and concur with management's accounting treatment.



Audit Quality Indicators (AQIs)

AQIs include quantitative measures about the audit process. The objective of these measures is to provide the Audit Committee and management with more in-depth information about factors that influence audit quality within the audit process.

Below are the AQIs that we have agreed with management are relevant for the audit.

AQI	Measurement criteria	Milestone measurement and status	R	Y	G
Team Composition	Experience of the team on the City audit and on clients following Public sector accounting standards (PSAS)	The majority of the audit team members performing the interim and year-end field work of the audit have been involved with the City audit for the last 2-3 years. The senior management and partners involved in the audit have been involved in the audit of the City's for numerous years and are also heavily involved in developments in the public sector with client involvement, PSAS training and attending national public sector conferences.			
Technology in the Audit	Implementation of Technology in the Audit	We increased the number of technologies used in the audit, including increasing our use of IDEA, used for journal entry testing, sampling and data cleansing in the current year.			
Timing of Prepared by Client (PBC) items	Timeliness of PBC items	PBC items were received from management at the date requested. The Corporate Finance Department organized a shared-site for the City departments to upload PBC information required for our audit and followed up on information that was not received.			
Quality Reviews	Results of internal and external reviews	We will share with you the results of any internal or external review. No reviews were completed on our 2018 audit of the City.			

Audit Response to COVID-19 Pandemic

We have described in the table below, the impact on our audit with respect to the impact of COVID-19.

Observations	Audit Considerations	Audit Response
Going Concern	– Canadian Auditing Standards require that management undertake a going concern assessment on an annual basis. – Management will need to analyze their going concern assessment taking into account factors such as: o Financial impact of lost revenue through closure of city facilities under different scenarios (COVID-19 durations of 30, 60, 90 and 120 days) o Financial impact of waving of interest on tax deferral o Cost savings from current employee lay-offs o Impact on the Financial Stabilization Reserve levels to sustain the City beyond the next financial reporting date o Impact on borrowing levels and liquidity ratio o Ability to access federal and provincial financial government stimulus and emergency programs o Consideration given if in a negative net asset position - From forecasting scenarios under COVID-19, Management has determined that the City will continue to operate as a going concern for the foreseeable future.	– KPMG has inquired of management on any implications of COVID-19 on its ability to continue as a going concern. – KPMG has obtained management's analysis of the COVID-19 impact and assessed for reasonableness. – KPMG concurs with management's going concern assessment.

Audit Response to COVID-19 Pandemic

Observations	Audit Considerations	Audit Response
Subsequent Events	Enhanced subsequent events procedures were required in response to COVID-19. There are two types of subsequent events, with the accounting treatment dependent on the categorization as follows: – Type 1 - Events that provide future evidence of conditions that existed at the financial statement date. For these conditions, the financial statements should be adjusted for measurable impact to the assets, liabilities, revenues and expenditures. – Type 2 - Events that are indicative of conditions that rose subsequent to the financial statement date. For these conditions, disclosures, at a minimum, should include a description of the event and an estimate of the financial impact, when practicable or a statement that an estimate cannot be made. Management performed an assessment of events subsequent to the year-end date that have an impact on the financial statements or are important to the users understanding of the current financial situation of the City. A statement as to whether or not these factors present uncertainty over future cash flows, may cause significant changes to the assets or liabilities and may have a significant impact on future operations.	– We have worked with management to customize language for a subsequent events note in the financial statements – We have obtained management's assessment of subsequent events over COVID-19 and examined management's conclusions and calculations for completeness and reasonableness. – We reviewed the note disclosure included in the notes to the financial statements to confirm it complies with the financial reporting framework.

Audit Response to COVID-19 Pandemic - Resources

Resources	
Resources for Management, Board and Audit and Risk Committee members	COVID-19 Alerts (Live Link) Please visit our COVID-19 website for resources covering the topics below. This site is being updated daily based on information being released by Federal, Provincial and Municipal news releases. – Business continuity guide – Immediate actions to take – Medium to long-term actions – Tax considerations and a summary of Federal and Provincial programs – Legal considerations – Financial reporting and audit considerations – Global perspectives.

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 issued Handbook Section 3280, *Asset Retirement Obligations*, on August 1, 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 (in productive use and those that are no longer in productive use) 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. • Three transitional provision options: prospective; retroactive; and modified retroactive application.

Current developments and audit trends

Standard	Summary and implications
Section PS 3400, *Revenue*	The Public Sector Accounting Board (PSAB) issued Handbook Section 3400, *Revenue* on November 1, 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. Exclusions from this are reporting of contributions and appropriations; and accounting for government transfers, tax revenues, interest, dividends and gains, and restricted assets. • 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

Standard	Summary and implications
***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. In September 2019, PSAB received a summary of the responses to the three invitations to comment, and the Employment Benefits Task Force's deliberations of the key issues. PSAB provided feedback to the Task Force for considerations. 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.
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 being developed and published on November 1, 2019. The main features of 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.

Current developments and audit trends

Standard	Summary and implications
2019-2020 Annual Improvements	In June 2018, PSAB discussed and approved an annual improvement process. The annual improvement process will clarify standards or other guidance or will correct relatively minor unintended consequences, conflicts or oversights. Major or narrow-scope amendments to the standards or other guidance are not included in the annual improvement process. In September 2019, PSAB reviewed the issues to be included in the 2019-2020 annual improvements and provided feedback. PSAB agreed to address two main categories of improvements in the upcoming exposure draft: • Updating disclosure requirements in individual standards relating to contractual rights. • Clarifying the effective date and the method of application (e.g. prospective, retroactive) for consequential amendments. PSAB also considered other issues that did not meet the annual improvements criteria as they were not widespread in practice, a correction of an error, or clarification of a standard. The 2019-2020 Annual Improvements Exposure Draft is set to be issued in January 2020, with PSAB deliberating the responses in June 2020 and final Handbook amendments expected to be approved in June 2020 and issued in August 2020.

Current developments and audit trends

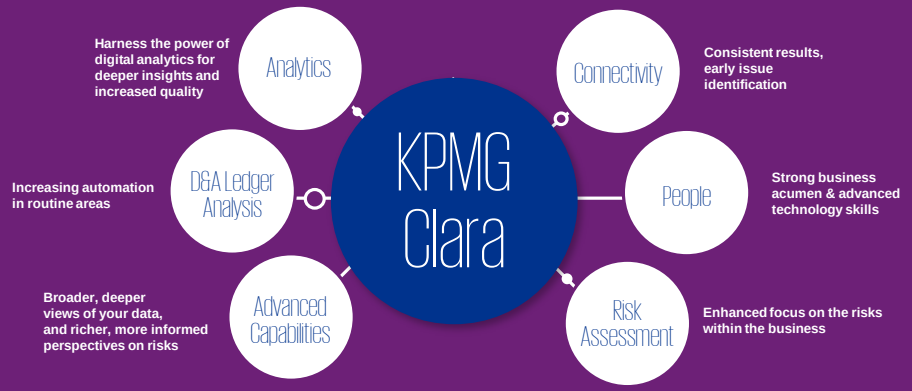
Our discussions with you and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG 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 report
Bracing for digital disruption	The digital revolution may be well into its prime, but the disruption is far from over. New and emerging technologies continue to shape (and reshape) how organizations operate and adapt to their customers. While these tools have opened the doors to new capabilities and market opportunities, they have also driven the need for stronger and more adaptive risk management strategies.	Link to report

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 City 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.

Appendices

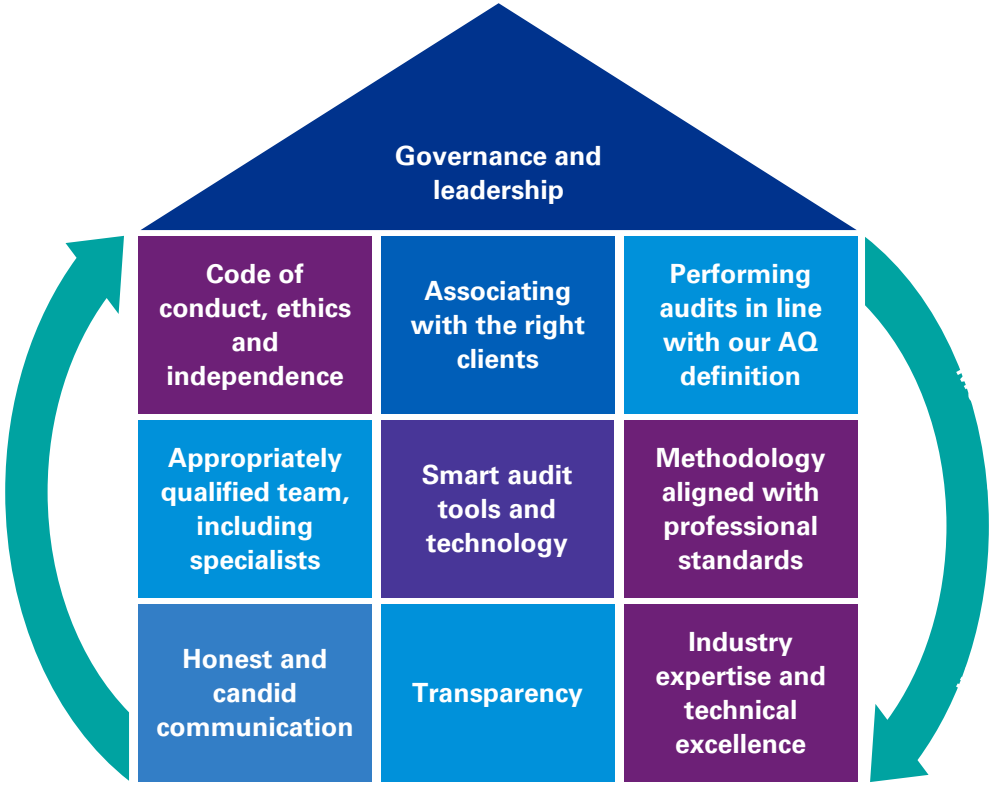


- Appendix 1: Audit quality and risk management
- Appendix 2: KPMG's audit approach and methodology
- Appendix 3: Required communications
- Appendix 4: Cybersecurity risk
- Appendix 5: Lean in Audit™ and workshops in 2019
- Appendix 6: Draft management representation letter

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 summarizes the six key elements of our quality control systems.



What do we mean by audit quality?

Audit Quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of **objectivity**, **independence**, **ethics**, and **integrity**.

Our AQ Framework summarises how we deliver AQ. Visit our Audit Quality Resources page for more information including access to our Audit Quality and Transparency report.

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: 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 6.

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 4: Cybersecurity risk

KPMG

COVID-19

Staying cyber secure

COVID-19 pandemic is changing our lives. People are concerned, and with that concern comes a desire for information, safety and support. Organized crime groups are exploiting the fear, uncertainty and doubt which COVID-19 brings to target individuals and businesses in a variety of ways.

The threat

Since mid-February, KPMG member firms have seen the rapid build-out of infrastructure by cybercriminals used to launch COVID-19 themed spear-phishing attacks and to lure targets to fake websites seeking to collect Office 365 credentials.

Examples of campaigns mounted include:

- COVID-19 themed phishing emails attaching malicious Microsoft documents which exploit a known Microsoft vulnerability to run malicious code.
- COVID-19 themed phishing emails attaching macro-enabled Microsoft Word documents containing health information which trigger the download of Emotet or TrickBot malware.
- Multiple phishing emails luring target users to fake copies of the Centers for Disease Control and Prevention (CDC) website which solicit user credentials and passwords.
- A selection of phony customer advisories purporting to provide customers with updates on service disruption due to COVID-19 and leading to malware download.
- Phishing emails purporting to come from various government Ministries of Health or the World Health Organization (WHO) directing precautionary measures, again embedding malware.
- COVID-19 tax rebate phishing lures encouraging recipients to browse to a fake website that collects financial and tax information from unsuspecting users.

Many existing organized crime groups have changed their tactics to use COVID-19 related materials on health updates, fake cures, fiscal packages, emergency benefits and supply shortages.

Typical giveaways that an email may be suspect include:

- Poor grammar, punctuation and spelling.
- Design and quality of the email is not what you would expect.
- Not addressed to you by name but uses terms such as “Dear colleague,” “Dear friend” or “Dear customer.”
- Includes a veiled threat or a false sense of urgency.
- Directly solicits personal or financial information.

Of course if it sounds too good to be true, it probably is.

The response

There are some key steps you should take to reduce the risk to your organization and your employees, particularly as you move to remote working:

- Raise awareness amongst your team warning them of the heightened risk of COVID-19 themed phishing attacks.
- Share definitive sources of advice on how to stay safe and provide regular communications on the approach your organization is taking to the COVID-19 pandemic.
- Make sure you set up strong passwords, and preferably two-factor authentication, for all remote access accounts; particularly for Office 365 access.
- Provide remote workers with straightforward guidance on how to use remote working solutions including how to make sure they remain secure and tips on the identification of phishing.
- Ensure that all provided laptops have up to date anti-virus and firewall software.
- Run a helpline or online chat line which they can easily access for advice, or report any security concerns including potential phishing.
- Encrypt data at rest on laptops used for remote working given the risk of theft.
- Disable USB drives to avoid the risk of malware, offering employees an alternate way of transferring data such as a collaboration tool.

Also, make sure that your finance processes require finance teams to confirm any requests for large payments during the COVID-19 pandemic. This confirmation can help to guard against the increased risk of business email compromise and CEO frauds. Ideally, use a different channel such as phoning or texting to confirm an email request.

Ensure that you apply critical security patches and update firewalls and anti-virus software across your IT estate, including any laptops in use for remote working. You should expect organized crime groups to exploit any failures in the maintenance of IT systems during this pandemic.

Make certain that you back up all critical systems and validate the integrity of backups, ideally arranging for off-line storage of backups regularly. Expect an increased risk of ransomware during the COVID-19 pandemic as organized crime groups exploit COVID-19 themed phishing.

Lastly, work with your incident and crisis management team to strive to ensure your organization has an alternate audio and video conferencing environment available.

This alternate platform will be needed if you do have a ransomware incident that disrupts your IT systems. And will also provide additional redundancy if your primary conferencing provider has capacity or availability issues.

COVID-19 will drive significant changes in how you and your organization work, stay safe and stay secure.

If you have any questions or would like additional advice, please contact us.

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Publication date: 3/19/2020

Appendix 5: Lean in Audit™ and workshops in 2019

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.

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.

2019 workshops performed

During 2019, KPMG performed 3 Lean in Audit workshops with various City departments on the following processes:

- The accounts payable cycle in the Municipal Accommodation department - 18 improvement opportunities were reported.
- The Commercial Inspections process with multiple City departments - 31 improvement opportunities were reported.
- The Commercial Permit process with multiple City departments - 34 improvement opportunities were reported.

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 6: Management representation letter

Chief Financial Officer • Chef des finances

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

May 22, 2020

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, 2019. 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 Council and committees of Council 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.

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

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.

Misstatements:

37) We approve the corrected misstatement identified by you during the audit relating to the overstatement of amortization expense of $1.8 million on the Southwest Rapid Transit project.

Yours very truly,

_____
Mr. Paul Olafson, Interim Chief Financial Officer

_____
Mr. Jason Ruby, Interim Corporate Controller

/rgd
2019-12-31 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.



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