The City of Winnipeg

Audit Findings Report
for the year ended December 31, 2020

KPMG LLP

Prepared for presentation on May 18, 2021

kpmg.ca/audit

KPMG



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KPMG contacts

The contacts at KPMG in connection with this report are:

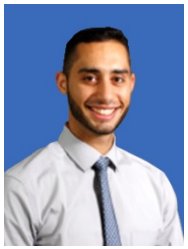


Shannon Magnusson

Lead Audit Engagement Partner

Tel: (204) 957-2283

smagnusson@kpmg.ca

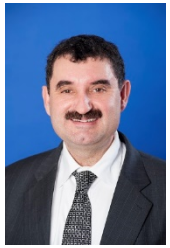


Al Charkeih

Audit Manager

Tel: (204) 957-2351

acharkeih@kpmg.ca



Austin Abas

Client Relationship Partner

Tel: (204) 957-2217

aabas@kpmg.ca

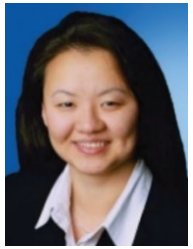


Reid Graham

Audit Manager

Tel: (204) 957-2258

reidgraham@kpmg.ca



C.J. James

Second Partner Reviewer

Tel: (604) 527-3635

cjjames@kpmg.ca



Chris Wilson

Senior Accountant

Tel: (204) 957-2326

cjwilson@kpmg.ca

Our refreshed Values

What we believe

Integrity
We do what is right.

Excellence
We never stop learning and improving.

Courage
We think and act boldly.

Together
We respect each other and draw strength from our differences.

For Better
We do what matters.

Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Audit Committee (the "Audit Committee"), in your review of the results of our audit of the consolidated financial statements (hereinafter referred to as the "financial statements") of The City of Winnipeg (the "City" or "Entity") as at and for the year ended December 31, 2020.

What's new in fiscal 2020

There have been significant changes in fiscal 2020 which impacted financial reporting and our audit:

- COVID-19 pandemic – See pages 5 and 6.
- New auditing standard for estimates – See page 7.

Areas of audit focus

Our audit is risk-focused. We have not identified any significant risks, other than the risk of management override of controls, which is presumed for all audits (page 9). However, as part of our audit, we identified areas of audit focus which include:

- Revenue
- Tangible capital assets
- Employee related expenses and accruals, including accrued employee benefits
- Impact fee refund
- Landfill liability
- Legal obligations

See pages 10-13 for the audit findings related to these areas of audit focus.

Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with the Audit Committee
- Obtaining the signed management representation letter and the signed engagement letter
- Obtaining evidence of the Audit Committee's approval of the financial statements
- Completing subsequent event review procedures up to the date of the Audit Committee's approval of the financial statements

We will update the Audit Committee on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our auditors' report, a draft of which is attached to the enclosed draft financial statements, will be dated upon the completion of any remaining procedures.

Executive summary (continued)

Materiality

Materiality had been determined based on expenses. We have determined materiality to be $37.8 million.

See page 8.

Adjustments and differences

We did not identify differences that remain uncorrected.

See page 15.

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. However we noted other observations that we have reviewed with management and noted as recommendations throughout this report.

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.

Independence

We confirm that we are independent with respect to the Entity within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2020 up to the date of this report.

Current developments

Please refer to Appendix 5 and 6 for the current development updates, including COVID-19 resources.

Audit quality indicators

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

See page 18.

What's new in 2020

COVID-19 pandemic

Areas of impact	Key observations
Entity's financial reporting impacts	- We considered impacts to financial reporting due to the COVID-19 pandemic and the additional disclosures needed in the financial statements as a result of the pandemic. - We obtained an understanding of the impact COVID-19 had on revenue streams (i.e. transit, parking, community services) and expenses during 2020 through review of management financial impact analysis and forecasts, interim financial statements and discussions with management. - We reviewed the accounting treatment for the COVID-19 Federal Safe Restart grant received by the City and noted that it was appropriately recognized as revenue. We agreed the amount received to the cash received and the grant letter. - We assessed the reasonableness of the assumptions used by the actuary in the valuation of the retirement allowance, compensated absences and pension obligation. - We performed an enhanced review of management's analysis of uncollectible receivable balances and assessed whether the allowance for doubtful accounts is reasonable. - We inquired with management about the performance of the investments and evaluated whether any indicators of permanent impairment have been identified. We reviewed investment statements and other information received from the investment manager to determine the impact on portfolio values. There were no significant issues noted in our testing.
Entity's internal control over financial reporting	- To assess changes to the City's internal control over financial reporting due to the COVID-19 pandemic, we updated our understanding of the process activities and controls over each significant financial process and performed walkthroughs over certain processes to ensure controls are implemented as designed. There were no significant issues noted in our testing.

What's new in 2020 (continued)

COVID-19 pandemic (continued)

Areas of impact	Key observations
Working remotely	- We used virtual work rooms, video conferencing through Microsoft Teams, and internally shared team sites to collaborate in real-time, both amongst the audit team as well as with management. - We used Microsoft Teams with City's management, accounting staff and payroll group to conduct walkthroughs, perform tests of controls and substantive tests. - We obtained virtual audit access to the City's PeopleSoft system in order to vouch supporting documentation directly in the City's IT system. - We increased our professional skepticism when evaluating electronic evidence received and performed additional procedures to validate the authenticity and reliability of electronic information used as audit evidence.
Direction and supervision of the audit	- The Manager and Engagement Partner were actively involved in determining the impact that the COVID-19 pandemic had on the audit (as discussed above), including the impact on the City's financial reporting and changes in the City's internal control over financial reporting. - The Manager and Engagement Partner implemented new supervision processes to deal with working in a remote environment, and our audit approach allowed us to manage the audit using meaningful milestones and frequent touch points.
Substantive testing – Response	- Our evaluation of management's assessment of going concern was enhanced to respond to the uncertainties relating to forecasted financial information and judgements about appropriate financial statement disclosures in the rapidly changing environment.

What's new in 2020 (continued)

New auditing standard

Standard	Key observations

CAS 540, Auditing Accounting Estimates and Related Disclosures	- This new standard was applied to the estimates that were assessed to have a risk of material misstatement due to estimation uncertainty that was other than remote including:
	  o Accrued employee benefits
	  o Landfill closure and post-closure costs liability
	  o Legal claims
	  o Expropriation
	- The granularity and complexity of the new standard along with our interpretation of the application of that standard necessitated more planning and discussion and increased involvement of more senior members of the engagement team.
	- We performed more granular risk assessments based on the elements making up the estimates such as the method, the assumptions used, the data used and the application of the method.
	- We considered the potential for management bias.
	- We assessed the degree of uncertainty, complexity, and subjectivity involved in making the estimates to determine the level of audit response.
	- We performed a retrospective review of the 2019 estimates to assess whether the estimation methodology remains appropriate for the 2020 year-end.
	See pages 12 and 13 under Areas of Audit Focus for estimates that related to significant risk or other areas of focus, which are a subset of all the estimates subject to the new standard.

Materiality

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. Overall materiality is determined at the group audit level and then a component level materiality is determined to respond to aggregation risk. The below sets out both the group and component materiality amounts. All significant components of the City are audited by KPMG, with components audited by non-KPMG auditors assessed as non-significant components.

Materiality determination	Comments	Amounts
Benchmark	Based on estimated annual expenses. This benchmark is consistent with the prior year.	$1.7 billion
% of Benchmark	The corresponding percentage for the prior year's audit was 2%.	2.2%
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for group materiality for the prior year's audit was $32.4 million.	$37.8 million Component level -$34 million
Performance Materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for group performance materiality in the prior year's audit was $24 million.	$28 million Component level - $25 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit group AMPT was $1.5 million.	$1.9 million Component level -$1.6 million

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We will report to the Audit Committee:



Corrected audit misstatements



Uncorrected audit misstatements

Audit risks

Professional requirements	Why is this significant?
Fraud risk from management override of controls	This is a fraud risk, which is presumed for all audits based on our professional standards. We have not identified any specific additional risks of management override relating to this audit.

Our response

Our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- Testing of journal entries and other adjustments.
- Performing a retrospective review of significant estimates.
- Evaluating the business rationale of significant unusual transactions.

Significant findings

There were no issues noted in our testing.

Areas of audit focus

Area of focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Revenue	- Updated our understanding of the process activities for all significant revenue streams, including government transfers, taxation and significant services offered by the City. We assessed the impact of COVID-19 on the revenue streams and adapted our audit approach as required. - Obtained and assessed management's analysis of accounting treatment of government transfers, including the timing of when the revenue should be recognized. - Agreed government transfers for capital purposes to agreements or confirmations, eligible expenditure reports, and subsequent payment. - Assessed deferred revenue relating to certain government agreements with stipulations and/ or eligibility criteria to be met by the City. - Assessed the application of the tax roll assessment and taxation rates as budgeted by the Council and compared the budgeted tax revenue to the actual tax collected. - Assessed reasonableness of allowance for property and business tax appeals, tax arrears, ambulance receivables, and other doubtful accounts receivable balances, considering the impact of COVID-19 on the collection rates and aging of the receivable balances. - Performed substantive analytical procedures over sales of services (transit, water, waste & sewage) and regulatory fees. - Assessed reasonableness of developer contribution revenue.	The City obtained new government grants during fiscal 2020 including the Federal Safe Restart Grant ($74.5 million) and the Rapid Housing Initiative ($12.5 million). We concurred with management's accounting treatment of both grants. For certain City services and regulatory fees impacted by COVID-19, we adjusted our expectation for our analytical procedures or performed substantive testing to obtain sufficient audit evidence. There were no significant issues noted in our testing.	With the increased risk of collection of accounts receivable balances evident during the COVID pandemic, management should continue to monitor the aging of receivables during 2021, to ensure timely collections of receivables and that an appropriate allowance is recorded to cover this increased risk.

Areas of audit focus

Area of focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Tangible capital assets	- Obtained and reviewed a sample of invoices for significant capital projects supporting the capital asset additions and assessed proper cut-off of all the capital projects in progress - Assessed the reasonableness of the amortization period (useful lives) of tangible capital assets and recalculated amortization expense for a sample of assets. - 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. - Inquired to departmental controllers over valuation of tangible capital assets to determine if any conditions exist requiring a write-down.	With certain facilities of the City currently not being used at full capacity as a result of COVID-19, we obtain management's assessment over the appropriateness of the valuation and useful lives of these facilities. As management believes all tangible capital assets currently not being used at full capacity due to COVID-19, will be used in the future, no change in the valuation or useful lives of these assets deemed necessary. No additional matters were found of significance to report.	Management should continue to monitor the appropriateness of using the half year rule for calculating amortization in the first year an asset is put into use, especially for larger capital projects. In addition, a valuation of tangible capital assets not in use should be completed in 2021 and appropriate write-downs be made, as necessary.
Employee related expenses and accruals	- 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. - Performed substantive analytical procedures over salary expense and employee benefit costs by department comparing the actual expense to the budgeted expense. - Tested a sample of City employee's annual salary per the payroll system to the employee's T4. - Performed substantive testing over accrued employee benefits, including retirement allowance, vacation accrual, workers' compensation and compensated absences.	With certain City employees working remotely, we identified no significant changes in controls over payroll we tested and found that they were working effectively. As a result of these procedures, no matters were found of significance to report.	Nothing to note.

Areas of audit focus

Area of audit focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Impact fee refund	- Inspected the July 8 and October 27, 2020 court rulings ordering the City to refund the impact fees collected since May 2017, together with any interest earned on the funds, back to the developers who paid the fees. - Agreed a sample of the refunds paid by the City during December 2020, which totalled approximately $37 million. The refunds were paid out of a reserve account established for accumulating the impact fee revenue collected. - Obtained management's assessment of the accounting treatment of the impact fee refund, including a retrospective analysis of the accounting treatment in prior years, to determine if a prior period adjustment would be required.	- We found management's assessment of the accounting treatment of the impact fee refund as an expense in 2020 to be reasonable and that no prior period adjustment was required.	Management has presented the impact fee refund separately in a note to the financial statements and disclosed the details of this refund in adequate detail.
Accrued employee benefits - retirement allowance, compensated absences and various pension and group life insurance plans	- Obtained valuation reports directly from the City's actuaries, Eckler Consultants & Actuaries, over the obligations of the City's various pension plans, compensated absences and the retirement allowance programs and reconciled to the disclosure in the financial statements. - We assessed management's assumptions used in the calculation of their accrued employee benefits, including discount rate, sick leave utilization, retirement age, salary escalation, and mortality rates. - We assessed the competency and objectivity of the actuaries used by management.	- The retirement allowance liability was calculated using a discount rate of 1.8% compared to 2.6% in 2019. This decrease is consistent with our expectation based on independent market indicators. - Assumptions used for other accrued employee benefits, including pension plans disclosure, were assessed and determined reasonable.	Nothing to report.

Area of audit focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Landfill liability	- Obtained management's calculation of the future landfill closure and post-closure care requirements and agreed significant inputs to supporting documentation, including engineer reports. - Assessed management's expert used to determine the landfill closure costs, Engineering firm, KGS Group. - Assessed management's estimates and assumptions used in the calculation of the landfill liability. - Reviewed the financial statement disclosure to assess if in compliance with the requirements of Canadian public sector accounting standards.	Utilizing updated estimates from engineer reports, management has estimated the Brady landfill to have a remaining capacity of 83% or well over 100 years. This estimate of capacity is used to determine the landfill liability as at December 31, 2020 We found the estimates and assumptions to be reasonable and supportable.	Nothing to note.
Legal obligations	- Obtained the 2020 Year-End Claims Report prepared by Legal Services detailing all claims against the City with potential exposure of over $250,000 as at December 31, 2020. - Obtained analysis prepared by Corporate Finance assessing if a provision is required in accordance with Canadian public sector accounting standards. - Obtained directly confirmation of the details of significant claims from both Legal Service and three external legal firms used on several potential legal exposures. - We assessed the adequacy of management's analysis, resulting legal claims provision and financial statement disclosure for the contingent liabilities relating to legal obligations.	We concur with management's assessment over potential legal exposures and the resulting accounting treatment.	Nothing to note.

Significant accounting policies and practices

Significant accounting policies

- There were no initial selections of or changes to the new significant accounting polices and practices.
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the timing of the City's transactions in relation to the period in which they were recorded.
- There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.

Significant accounting estimates

- There were no issues noted with management's identification of accounting estimates.
- There were no issues noted with management's process for making accounting estimates.
- There were no indicators of possible management bias.
- There were no significant factors affecting the City's asset and liability carrying values.

Financial statement presentation and disclosure

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

Uncorrected differences and corrected adjustments

Differences and adjustments include disclosure and presentation differences and adjustments.

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

Uncorrected differences

We did not identify differences that remain uncorrected.

Corrected adjustments

An adjustment was recorded to adjust for overpayments by water customers in accounts receivable as deferred revenue instead of netted against accounts receivable, increasing both deferred revenue and accounts receivable balances by approximately $4.1 million.

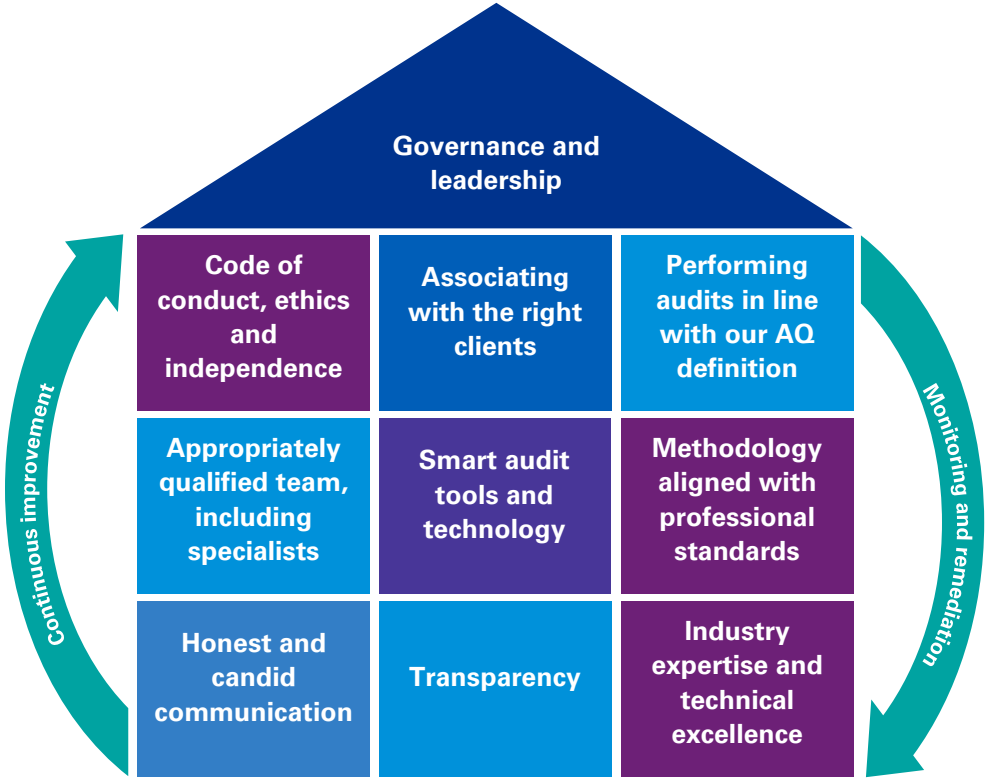
Other than the above, we did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Audit Quality Matters



Audit quality and transparency

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 key elements of our quality control system.



Audit Quality Framework

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.

Audit quality indicators (AQIs)

The objective of these measures is to provide the City and management with more in-depth information about factors that influence audit quality within an audit process. Below you will find the current status of the AQIs that we have agreed with management are relevant for the audit.

AQI	Measurement criteria	Milestone measurement and status	G Y R
Team Composition	Experience of the team	Several of the KPMG team members utilized for the audit of the City have been involved in the audit engagement for numerous years. All senior members of the engagement team have public sector accounting experience. Our second partner reviewer, CJ James, was new to the team in 2020 and brought fresh eyes to our audit approach and in reviewing the financial statements. CJ is the Industry Leader of KPMG's Public Sector Audit Practice in B.C. and a Board member of the Public Sector Accounting Board.	●
Technology in the Audit	Implementation of Technology in the Audit	We used technologies in the audit, including the use of IDEA, in our journal entry testing, sampling and data cleansing in the current year.	●
Timing of Prepared by Client (PBC) items	Timeliness of PBC items	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. The majority of the required information was prepared for the commencement of our audit work and uploaded onto the shared site. The information we received was complete and we received full cooperation from management, who replied to requests on a timely basis. Our audit team has updated the PBC listing during the 2020 audit, to more accurate reflect names of revised reports and contact people at the City, for use in the 2021 audit.	●

Legend: ● Nothing to report ● Some matters to report ● Specific matters to report

Appendices

Appendix 1: Required communications

Appendix 2: Management representation letter

Appendix 3: Use of technology in the audit

Appendix 4: KPMG's Audit Approach and Methodology

Appendix 5: Audit and Assurance Insights

Appendix 6: Current developments and audit trends

Appendix 7: Lean in audit

Appendix 8: Thought Leadership



Appendix 1: Required communications

Auditors' Report

The conclusion of our audit is set out in our auditors' report which is attached to the draft financial statements.

Representations of management

In accordance with professional standards, a copy of the management representation letter is provided to the Audit Committee. The management representation letter is attached as Appendix 2.

Audit quality

Audit Quality (AQ) is at the core of everything we do at KPMG. Page 17 provides more information on AQ.

Fraud related inquiries

Professional standards require that we obtain your views on fraud risk. We made similar inquiries of management as part of our planning process, responses to these assisted us in planning our overall audit strategy and audit approach accordingly.

i. What are your views about fraud risk at the City?

ii. How do you exercise effective oversight of management's processes for identifying and responding to the risk of fraud in the City and internal controls that management has established to mitigate these fraud risks?

iii. Are you aware of, or have you identified any instances of, actual suspected, possible, or alleged non-compliance of laws and regulations or fraud? If so, have the instances been addressed and how have they been addressed?

Appendix 2: Management representation letter

KPMG LLP
1900 – 360 Main Street
Winnipeg MB R3C 3Z3

May 18, 2021

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, 2020. 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 1, 2021 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.

    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.

31) We have assessed the economic impact of COVID-19 on the measurement of employee benefits, including whether updated actuarial valuations of defined benefit liabilities are required. Relevant changes, if any, to the measurement of employee benefits have been appropriately recorded and disclosed in accordance with the relevant financial reporting framework.

Segment Disclosures:

32) 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.

33) 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.

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

Other:

35) 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.

36) 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.

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

Misstatements

38) We approve the corrected misstatement identified by you during the audit relating to the adjustment for overpayments by water customers in accounts receivable as deferred revenue instead of netted against accounts receivable, increasing both deferred revenue and accounts receivable balances by approximately $4.1 million.

Yours very truly,

_____
Catherine Kloepfer, FCPA, CGA, FCA, ICD.D.
Chief Financial Officer

_____
Paul Olafson, CPA, CA
Corporate Controller

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.

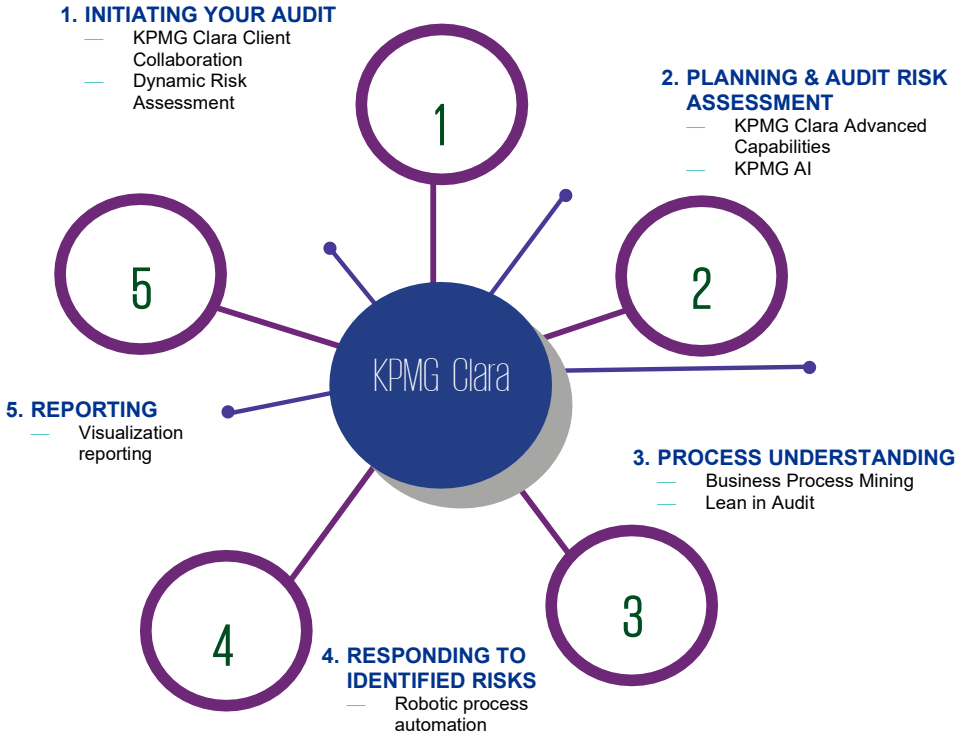
Appendix 3: Use of technology in the audit

Clara is KPMG's integrated, smart global audit platform that allows our teams globally to work simultaneously on audit documentation while sharing real time information. Clara also leverages advanced technology in the execution of various audit procedures, for overall risk assessment and for performing substantive audit procedures over 100% of selected transactions using robotic process automation (KPMG "Bots"). KPMG's use of technology provides for:

1. a **higher quality audit** – looking at 100% of selected data
2. a **more efficient audit** as we are focussed on the transactions that are considered higher risk and
3. an audit that provides **insights into your business** through the use of technology in your audit with our extensive industry knowledge.

We are also actively piloting Artificial Intelligence ("AI") tools which will be used in future audits.

Our five-phased audit approach



Appendix 4: KPMG's audit approach and methodology

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 5: Audit and Assurance Insights

Our latest thinking on the issues that matter most to Audit Committees, Boards and Management.

Featured insight	Summary	Reference
Audit & Assurance Insights	Curated thought leadership, research and insights from subject matter experts across KPMG in Canada	**Learn more**
The business implications of coronavirus (COVID-19)	Resources to help you understand your exposure to COVID-19, and more importantly, position your business to be resilient in the face of this and the next global threat.	**Learn more**
	Financial reporting and audit considerations: The impact of COVID-19 on financial reporting and audit processes.	**Learn more**
	KPMG Global IFRS Institute - COVID-19 financial reporting resource center	**Learn more**
Accelerate 2020	Perspective on the key issues driving the Audit Committee agenda	**Learn more**
Momentum	A quarterly Canadian newsletter which provides a snapshot of KPMG's latest thought leadership, audit and assurance insights and information on upcoming and past audit events – keeping management and board members abreast on current issues and emerging challenges within audit.	**Sign-up now**
Board Leadership Centre	Leading insights to help board members maximize boardroom opportunities.	**Learn more**

Appendix 6: Current accounting developments

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*	The Public Sector Accounting Board (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, 2022. Earlier adoption is permitted. This Section establishes standards on how to account for and report a liability for asset retirement obligations. The main features of the new standard are as follows: • An asset retirement obligation is a legal obligation associated with the retirement of a tangible capital asset. • Asset retirement costs associated with a tangible capital asset controlled by the entity increase the carrying amount of the related tangible capital asset (or a component thereof) and are expensed in a rational and systematic manner. • Asset retirement costs associated with an asset no longer in productive use are expensed. • Measurement of a liability for an asset retirement obligation should result in the best estimate of the amount required to retire a tangible capital asset (or a component thereof) at the financial statement date. • Subsequent measurement 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. • A present value technique is often the best method with which to estimate the liability. As a consequence of the issuance of Section PS 3280: • editorial changes have been made to other standards; and • Section PS 3270 - Solid waste landfill closure and post-closure liability, has been withdrawn. Section PS 3270 will remain in effect until the adoption of Section PS 3280 for fiscal periods beginning on or after April 1, 2022, unless a public sector entity elects earlier adoption.

Section PS 3400, *Revenue*	PSAB issued Handbook Section 3400, *Revenue* on November 1, 2018. Section 3400 will be effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. The main features of the new standard are as follows: • Performance obligations are enforceable promises to provide specific goods or services to a specific payor. • Revenue from transactions with performance obligations should be recognized when (or as) the public sector entity satisfies a performance obligation by providing the promised goods or services to a payor. • Revenue from transactions with no performance obligations should be recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and identifies a past transaction or event that gives rise to an asset.
Employee Benefits Project	PSAB approved a revised Employment Benefits project plan at their June 26, 2020 meeting. This approval comes following thorough consideration of how to respond to stakeholders' most pressing needs in the best and timeliest way possible. PSAB is focused on delivering a principles-based employment benefits standard that addresses current and emerging key issues faced by Canadians and public sector plans. Under the revised approach, the new employment benefits standard will become available through multiple releases. Release 1 will provide base accounting guidance, with later releases building on those principles to further address current and emerging issues. PSAB staff are already preparing the Release 1 exposure draft, which will focus on deferral provisions and discount rate guidance. This exposure draft will use principles from International Public Sector Accounting Standard (IPSAS) 39, *Employment Benefits*, as a starting point. We can modify IPSAS 39 principles to better fit the Canadian environment and provide customized guidance where needed. The adoption date of Release 1 of the standard will be determined by PSAB at the time that Release 1 of the standard is approved. Later releases will focus on providing further guidance on the topic of Non-traditional pension plans and other issues.

Statement of Principles, *Public Private Partnerships*	The Public Private Partnerships standard, Section PS 3160, was approved by PSAB in December 2020. The standard has been issued in the PSA Handbook in April 2021 and is effective for fiscal years beginning on or after April 1, 2023. The main features of the new standard 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.

Appendix 7: 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

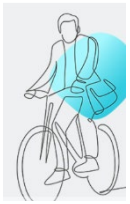
Perform interactive workshops to conduct walkthroughs of selected financial processes providing end-to-end transparency and understanding of process and control quality and effectiveness.

3. Insight reporting

Quick and pragmatic insight report including immediate quick win actions and prioritized opportunities to realize benefit.

Appendix 8: Thought Leadership

Public sector leaders around the world have played a critical role in COVID-19 response efforts. At an unprecedented rate, public service leaders are navigating a broad range of intersecting issues. We present curated content for the City to move forward.



Return to the workplace

As all levels of government begin to take steps toward re-opening the country and restarting our economy, planning for the return to a physical workplace is quickly becoming a top priority for many organizations. With the guidelines for the pandemic continuing to evolve daily, there are many considerations, stages and factors employers need to assess in order to properly develop a robust action plan which can ensure the health and safety of their workforce.



The new reality for government: Post-pandemic global insights for the public sector

Since the start of the pandemic, at KPMG we have listened to our government and public sector clients, provided insights and worked shoulder to shoulder with them on response efforts. As countries and territories begin to recover, KPMG's Global Government and Public Sector practice is sharing further insights through "The new reality for government" thought leadership featuring commentary on six key areas of change and opportunity.



Digital transformation in the public sector

The challenge for digitization is that digitizing the way we do things today releases only limited benefits. In contrast, undertaking fundamental digital transformation to remove unnecessary processes and move to a 'to be' model, can deliver greater effectiveness in terms of improved citizen and workforce experience as well as long-term cost savings. Leaders need to demonstrate the confidence to maintain the momentum of transformational change for citizens and their workforce, as well as for their balance sheet, rather than retreating to incremental steps.



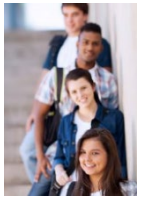
Accelerate: Perspective on key issues driving the Audit Committee agenda

It's an era of transformation, and it's all hands-on deck. Audit Committees and their boardroom peers face no end to the internal disruptions, digital threats, industry shifts, and climate change impacts - each of which poses unique and unyielding risks to their organizations. And with the shape and magnitude of those risks in constant flux, "business as usual" is no longer a viable strategy.



COVID-19 and municipal infrastructure

Authored by Ross Homeniuk, Winnipeg Advisory Partner and National Leader, Infrastructure Asset & Operations Management. As key enablers of local program and service delivery, infrastructure and facilities will play an important role as municipalities navigate the pandemic and position for post-COVID-19 success. Speaking with municipal leaders, we've identified some key questions that local governments should be asking to understand current and coming implications, and how these may influence go forward plans and decisions.



Innovating Human Services by giving clients choice, control and flexibility

"Integration", "transformation", and "modernization" have become the prevalent buzzwords in the Canadian Human Services sector. Everyone wants to change, become more efficient, and drive better value - all code for greater cost savings. But one important trend in human services globally is being overlooked – providing choice and control to the client.



Listen, learn, lead: 2018 Human and Social Service Outlook

Increased needs and decreased funding are adding pressure to human and social services (HSS) sectors around the world. The pressures are pushing many service organizations to a point of crisis as they struggle to adapt to changing customer needs and the challenge of transforming their organizations to improve complex service delivery.

However, this new global survey of HSS CEOs identifies ways to accelerate the transformation needed for the sector to meet the expanding demands for its services.



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KPMG member firms around the world have 227,000 professionals, in 146 countries.

