The City of Winnipeg

Councillors' Ward Allowance Fund Policy Report

Audit Findings Report to the Governance Committee of Council

For the year ended December 31, 2020

Prepared as of June 7, 2021

kpmg.ca/audit

KPMG



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KPMG contacts

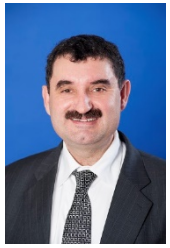
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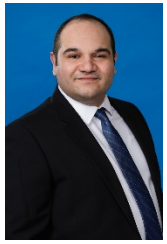
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Our refreshed Values

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[1]

The purpose of this Audit Findings Report is to assist you, as a member of the Governance Committee of Council, in your review of the results of our compliance audits of the Councillors' Ward Allowance (CWA) and Chairperson Expenditures Reports for five Councillors selected randomly by management of The City of Winnipeg (the City) as at and for the year ended December 31, 2020.

Overview of the Councillors' Ward Allowance Fund Policy

The Councillors' Ward Allowance Fund provides monies for City Councillors to pay for furnishings, office equipment, materials and administrative services required to operate their offices. The fund is also used for business expenses incurred by Councillors to perform their duties, communicate with their constituents, and represent their wards.

Chairmanship funds are received by elected officials in recognition of extra duties and expenses incurred by virtue of acting as a chairperson of a committee, or other additional Council roles. Chairperson expenditures are required to follow the provisions of the *Councillors' Ward Allowance (CWA) Fund Policy*.

The adopted budgets for the Councillors' Ward Allowance Fund in 2020 amounted to an allocated budget of $84,924 per ward and either $4,000 or $2,970 for other Council roles.

The *Councillors' Ward Allowance (CWA) Fund Policy* ("the Policy") provides direction on the guiding principles for the funds, guidance for spending, and detailed roles and responsibilities for fund stakeholders.

Roles and responsibilities

The Policy establishes key controls over administration of the fund expenditures. The Policy also prescribes the roles and responsibilities of Councillors, the City Clerk's Department, the Corporate Finance Department, and the Governance Committee of Council, in relation to the funds.

The provisions of the Policy also apply to additional funds provided to chairpersons of committees of Council and for other Council roles.

All organizational stakeholders are responsible for following all accounting, audit and income tax principles, and rules relating to the Policy.

Councillors are authorized to spend funds allocated to their wards, and are responsible for ensuring that the funds spent comply with the provisions of the Policy.

The City Clerk's Department is responsible for reviewing and processing CWA expenditures on an ongoing basis in accordance with the Policy; it is also responsible for providing accounting and financial support to Councillors, including on the handling of difficult and unusual transactions. In the event that the City Clerk's Department requires policy interpretation or guidance on the appropriateness of an expenditure, the matter is referred to the Governance Committee of Council. The City Clerk's Department can also bring forward policy amendments to the Governance Committee of Council.

The Corporate Finance Department is responsible for processing payment for CWA expenditures at the direction of the City Clerk's Department, and for the monthly posting of CWA expenditures for each ward and chairperson account on the City's website.

The Governance Committee of Council makes decisions on the appropriateness of expenditures brought to their attention. The Committee also reviews policy amendments brought forward by the City Clerk's Department, and recommends policy amendments to Council.

[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the Governance Committee of Council. 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.

Control and other observations

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

We identified control deficiencies, as listed in the Observation and Recommendation section that we determined to be other control deficiencies that have not been communicated to management by other parties and that, in our professional judgment, are of sufficient importance to merit management's attention and action.

Refer to Appendix 1 for the definitions of the various control deficiencies.

Independence

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

Materiality

We have determined materiality for each CWA and Chairperson Expenditures Reports for the year ending December 31, 2020.

Refer to page 3.

Uncorrected differences

We did not identify differences that remain uncorrected.

Refer to page 4 which discloses corrected differences found during our audit.

Materiality

Materiality is used to identify risks of material misstatements, develop an appropriate audit response to such risks, and evaluate 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.

Materiality determination	Comments	Amount
Benchmark	Based on the average annual total expenditures of the five selected Councillors. This benchmark is consistent with the benchmark used in the 2019 audit.	$92,400
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. (2019 - $942)	$924
% of Benchmark	Percentage applied to above benchmark to calculate materiality. (2019 – 1%)	1%
Performance materiality	Used 75 percent of materiality, and used primarily to determine the nature, timing and extent of audit procedures. (2019 – $707)	$693
Audit Misstatement Posting Threshold (AMPT)	Thresholds used to accumulate misstatements identified during the audit. (2019 - $35)	$35

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 Governance Committee of Council 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

During our audit and while testing the presentation of the CWA expenditures, we noted the following expenditures were not presented in an account that matched the actual expense description per the support obtained. All the below expenses classifications were corrected by the Corporate Finance Department and are properly reflected in the CWA expenditures reports.

Expense not recorded in the correct account	Comment
$683.73	Expense related to “Community Expense - Luncheons, Receptions, Events” was initially incorrectly recorded in the “Office Supplies - Stationery and Office Supplies” expense account.
$445.76	Expense related to “Office Equipment – Office Furniture” was initially incorrectly recorded in the “Office Supplies - Stationery and Office Supplies” expense account.
$400.00	Expense related to “Advertising and Promotion – Advertising” was initially incorrectly recorded in the “Community Expenses” expense account.

Audit quality indicators (AQIs)

The objective of these measures is to provide the Governance Committee of the Council 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	Both Partners involved have 10+ years of experience with the City of Winnipeg and 4 years or involvement with the Councillors' Ward Allowance and Chairpersons Expenditure Report audits. The Senior Manager has been involved in these audits for the last 4 years.	
Technology in the Audit	Implementation of Technology in the Audit	Utilized a KPMG shared site to provide management with a secure site in which to provide KPMG with the information required for the audit and reduced the need for sending information by e-mail and eliminated the use of a USB stick. KPMG utilized pivot tables and Vlookup in Microsoft Excel to prepare the expenditure reports for each Councilor.	
Timing of Prepared by Client (PBC) items	Timeliness of PBC items	Both the Corporate Finance and the City Clerks Departments had all required information prepared for the commencement of our field work. The information we received was complete and we received full co-operation from all involved.	

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

Control observations and recommendations

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

Other control deficiencies – Current year

Expenses Not Recorded in the Correct Account

As noted on page 4, while testing the presentation of the CWA expenditures, we noted expenditures that were not presented in an account that matched the actual expense description per the supporting documentation we obtained. The expenditures were in compliance with the CWA Policy but were classified in an expense account that did not match the actual expense incurred.

Management of the City corrected the presentation of the expense to the appropriate account so that it is properly reflected in the final expenditure reports.

RECOMMENDATION 1

Management should ensure compliance with the Policy in relation to properly recording expenditure in the appropriate expense account.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's and Corporate Finance Departments accept this recommendation and acknowledges these as human error. Additional due diligence will be undertaken to ensure that all expenditures are recorded in the appropriate expense account.

IMPLEMENTATION DATE

Ongoing

Other control deficiencies – Prior year update

The *Councillors' Ward Allowance Fund Policy Report to Governance Committee of Council*, June 2020 included recommendations on control mechanisms that could be improved.

We noted the following recommendations were implemented through conversations with the City Clerk's Department and audit work performed.

1. Expenses not Recorded Within the Correct Reporting Period

As per Section Four of the Policy:

- Expenses must be charged to the year in which they occurred. Expenses cannot be carried forward to different years.
- Expenses that cover multiple years should be split to ensure that expenses are charged to the year in which the expense will be incurred.
- Each Councillor shall have until January 15 of the following year to submit all receipts for the preceding year for payment.

During our audit we found minor expenses that were not recorded within the correct period for three wards.

Through investigation, the cause of the above deficiencies was found to be administrative errors and not representative of a material control deficiency.

RECOMMENDATION 1

Management should ensure compliance with the Policy. Expenditures should be recorded within the reporting period that the expenditure is incurred (when the goods or service is received). When an expense is incurred over multiple years, management should ensure that the invoice is split and the expenses is recorded to the year in which the expense will be incurred. In addition, accruals should be estimated and recorded in case the invoice is not received before the year end.

KPMG notes that the findings from the audit indicate that for twelve Councillor audits, no issues were found with expenses recorded in the incorrect period, and three Councillor audits found minor expense issues. Although, we continue to recommend that ensuring proper cut-off of expenses is a focus area of management, this year's audit did not indicate a control deficiency in the majority of the Councillor audits.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's and Corporate Finance Departments accept this recommendation and acknowledges these as human error. Scrutiny of invoice dates occurs as part of regular invoice and journal entry processes, however, on occasion an error can be made. Additional due diligence on ensuring costs are charged to the correct fiscal year will be undertaken.

2020 Update

Based on our inquiry and our samples selected to test cut-off, we noted for all samples selected that the expenses were recorded in the correct reporting period.

2. Donations not Forwarded to the City Clerk and not Addressed to the City of Winnipeg

As per Section Five of the Policy:

- Donation receipts must be addressed to the City of Winnipeg.
- Donation receipts received by Councillors must be forwarded to the City Clerk's Office.

During our audit, we found a donation receipt that was not in compliance with the Councillors' Ward Allowance (CWA) Fund Policy.

RECOMMENDATION 2

Management should ensure compliance with the Policy in relation to donation receipts. Donation receipts should be forwarded to the City Clerk's office and must be addressed to the City of Winnipeg, not addressed to the Councillor or to the Mayor.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's Department is in agreement that all aspects of the Councillor's Ward Allowance (CWA) Policy must be complied with. In an effort to eliminate these incidents, effective October, 2020, a letter will be included with all donation cheques advising that donation receipts must be addressed to the City of Winnipeg, as well as providing information to where the receipts may be mailed or emailed. Additionally, the City Clerk's Department will assign staff to track all donations from the CWA, to ensure that receipts are properly addressed and processed in compliance with the policy.

To address the above noted 2019 donation receipt issues, management is provided a letter to any Member of Council that may have received the donation receipts in their name to advise them of the issue and inform them that these donation receipts cannot be claimed on their personal tax returns.

2020 Update

During our 2020 audit we observed the following through our testing:

- A letter is included with all donation cheques advising the donor that donation receipts must be addressed to the City of Winnipeg.
- A donation tracker has been created by the City Clerk's department, to ensure that receipts are properly addressed and processed in compliance with the policy.

In our testing of donation receipts, we noted no issues of non-compliance to the Policy.

Appendices

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Appendix 2: How do we deliver audit quality

Appendix 3: KPMG's audit approach and methodology



Appendix 1: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the compliance with the CWA Fund Policy, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

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

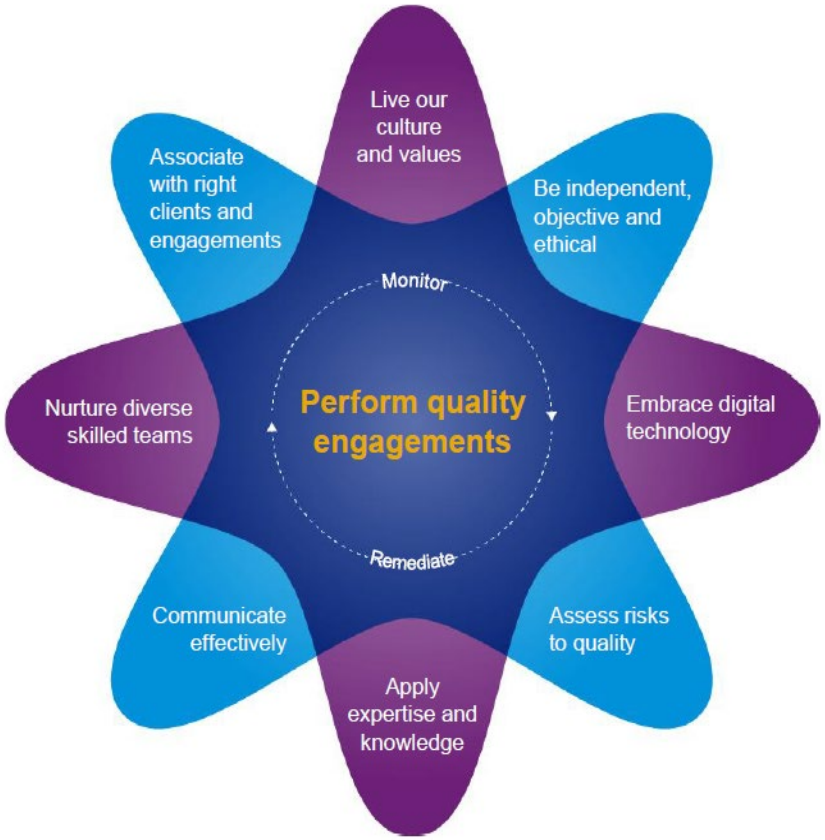
Appendix 2: How do we deliver audit quality?

Transparency report

Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

'Perform quality engagements' sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

Our **quality value drivers** are the cornerstones to our approach underpinned by the **supporting drivers** and give clear direction to encourage the right behaviours in delivering audit quality.



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.**

Doing the right thing. Always.

Appendix 3: 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.



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