The City of Winnipeg

Audit Findings Report
for the year ended
December 31, 2021

KPMG LLP

PREPARED ON MAY 3, 2022 FOR A MEETING TO BE HELD ON MAY 18, 2022

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

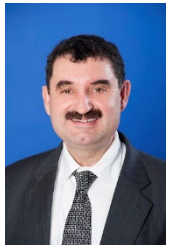


Cassie Allen

Audit Senior Manager

Tel: (204) 220-3879

cassieallen@kpmg.ca



Austin Abas

Client Relationship Partner

Tel: (204) 957-2217

aabas@kpmg.ca

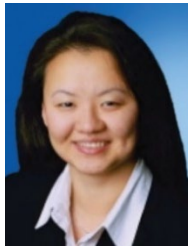


Chris Wilson

Senior Accountant

Tel: (204) 957-2326

cjwilson@kpmg.ca



C.J. James

Second Partner Reviewer

Tel: (604) 527-3635

cjjames@kpmg.ca



Bailey Church

National Public Sector Accounting Advisory Partner

Tel: (613) 212-3698

bchurch@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.

Audit highlights

Purpose of this report[1]

The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the financial statements of the City of Winnipeg ("the City") as at and for year ended December 31, 2021.

Status of the audit

As of May 3, 2022, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Updating our subsequent event procedures to the date of our audit report;
- Receipt of the signed management representation letter;
- Completing our discussions with the Audit Committee; and
- Obtaining evidence of the Board's approval of the financial statements.

We will update the Audit Committee, and not solely the Chair, on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

Our auditors' report will be dated upon the completion of any remaining procedures.

Audit materiality

Materiality has been determined based on estimated total revenue. We have determined materiality to be $38.7 million.

Refer to page 7.

Significant risks and other significant matters

Refer to pages 8 to 12 for our response and significant findings for the following significant risks and other significant matters:

- Revenue
- Tangible capital assets
- Employee related expenses and accruals
- Employee benefit obligations
- Landfill liability
- Legal obligations

Control deficiencies

We did not identify any control deficiencies that we determined to be significant deficiencies in internal control over financial reporting. A significant deficiency in internal control is a deficiency, or combination of deficiencies, in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

[1] This report is intended solely for the information and use of Management and the Audit Committee; and should not be used for any other purpose or any other party. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this 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.

Audit highlights (continued)

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.

Uncorrected audit misstatements

No matters to report.

Audit quality indicators

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

Refer to page 6.

Independence

We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada.

Current developments

Please refer to Appendix 4 and 5 for the accounting development updates, including current thought insights.

Audit Quality: How do we deliver audit quality?

Transparency report

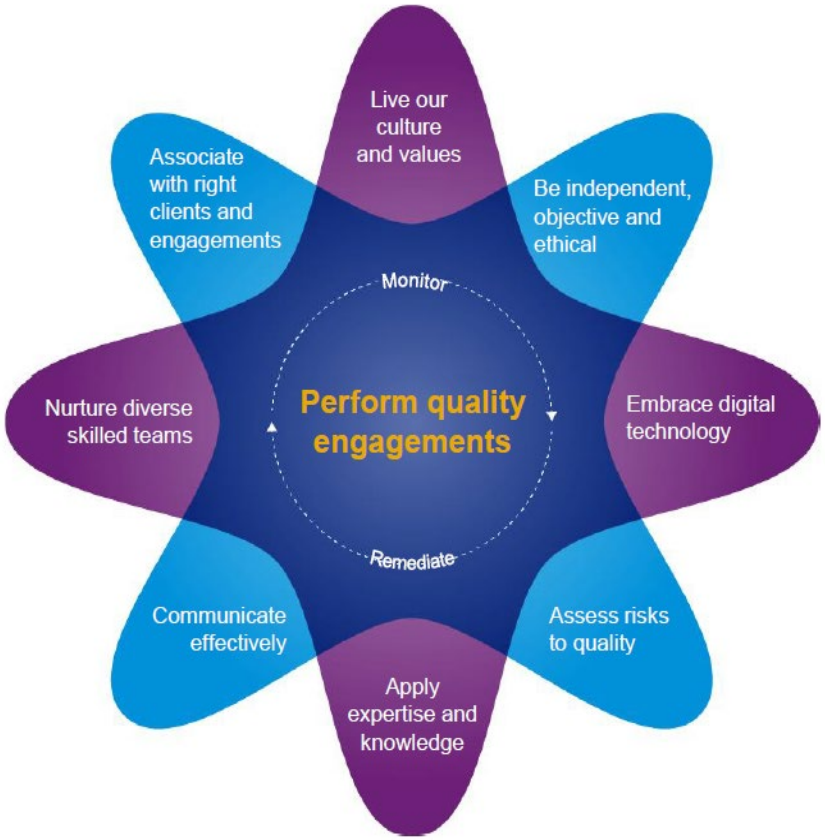
Quality essentially means doing the right thing and remains our highest priority. Our **Global Quality Framework** outlines how we deliver quality and how every partner and staff member contributes to its delivery.

'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.**



Visit our **Audit Quality Resources** page for more information.

Doing the right thing. Always.

Audit Quality: Indicators (AQIs)

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 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. Consistent with the prior year audit, management arranged for KPMG to have People Soft access to pull invoices off the City's system, which decreases information requests from City staff and increases efficiencies. The information we received was complete and we received full cooperation from management, who replied to requests on a timely basis. Management prepared financial statement skeletons for KPMG's preliminary review in early March, which was very beneficial for reviewing note disclosure in the early stages of the audit.	

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

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.

Materiality determination	Comments	Amounts
Benchmark	Based on estimated annual expenses. This benchmark is consistent with the prior year.	$1.72 billion
% of Benchmark	The corresponding percentage for the prior year's audit was 2.2%.	2.25%
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was $37.8 million.	$38.7 million Component level - $34.8 million
Performance Materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was $28 million.	$29 million Component level - $26 million
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $1.9 million.	$1.9 million Component level - $1.7 million

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We will report to the Audit Committee:



Corrected audit misstatements



Uncorrected audit misstatements

Audit risks and results

We highlight our significant findings in respect of significant risks as identified during the audit.

Significant risk	New or changed?	Estimate?
Fraud risk from management override of controls.	No. This is a presumed fraud risk under professional standards. We have not identified any specific additional risks of management override relating to this audit.	No

Our response
As the risk is not rebuttable, our audit methodology incorporated the required procedures in professional standards to address this risk. These procedures included testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions. As a result of these procedures, no matters were found of significance to report.

Areas of audit focus

We highlight our findings in respect of areas of focus as identified during the audit.

Area of focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Revenue	Our procedures over revenue included the following: - Updated our understanding of the process activities for all significant revenue streams, including government transfers, taxation and significant services offered by the City. - 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 receipt. - 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. - Performed substantive analytical procedures over sales of services (transit, water, waste & sewage) and regulatory fees. - Assessed reasonableness of developer contribution revenue.	The City obtained government grants during fiscal 2021 including funding for the North End Water Pollution Control Centre Upgrades projects ($126.4 million) and the Rapid Housing Initiative – Phase 2 ($12.8 million). We concurred with management's accounting treatment of both grants. Consistent with our 2020 audit, for certain City services 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.	Nothing to note

Areas of audit focus

Area of focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Tangible capital assets	Our procedures over tangible capital assets included the following: - 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. - 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. - Assessed the reasonableness of the amortization period (useful lives) of tangible capital assets and recalculated amortization expense for a sample of assets. - Obtained management's assessment of valuation of tangible capital assets to determine of any conditions exists that indicate a write-down or change in the useful lives estimate would be necessary.	Management's valuation assessment of tangible capital assets that were not used at full capacity since March 2020 due to COVID-19 concluded that no change in the valuation or useful lives of these assets was deemed necessary. No additional matters were found of significance to report.	Nothing to note.
Employee-related expenses and accruals	Our procedures included the following: - 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
Employee benefit obligations	Our procedures included the following: - 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 tested a sample of the underlying membership data sent to the actuaries and assessed the competency and objectivity of the actuaries. - Assessed financial statement disclosure over employee benefit obligation for completeness and accuracy.	The retirement allowance liability was calculated using a discount rate of 2.4% compared to 1.8% in 2020. This increase 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.
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.	The following estimates are used to determine the landfill liability as at December 31, 2021: – Estimate that the Brady landfill to have a remaining capacity of 82% (2020 – 83%) or over 100 years. – Discount rate of 3.5% (2020 – 4.0%) based on the City's budgeted long-term borrowing rate – Inflation rate of 1.66% (2020 – 1.64%) using a rolling 10-year average. We found the estimates and assumptions to be reasonable and supportable.	We recommend that management continue to consider the impact in the near term of the rising inflation rate on the landfill liability in accessing future closure costs.

Area of audit focus	Our response	Significant findings	Significant qualitative aspects of the Entity's accounting practices
Legal obligations	- Obtained the 2021 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, 2021. - 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.

Uncorrected and corrected audit misstatements

Audit misstatements include presentation and disclosure misstatements, including omissions.

Uncorrected audit misstatements

We did not identify misstatements that remain uncorrected.

Corrected audit misstatements

The management representation letter includes the Summary of Corrected Audit Misstatements that were communicated to management and subsequently corrected in the financial statements.

Financial statement presentation and disclosure

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

We also highlight the following:

Financial statement presentation - form, arrangement, and content	***2021 financial statement presentation*** For the 2021 consolidated financial statements, Management revamped certain notes improving readability and clarity to the financial statements. Management reviewed the following when considering the revisions to the 2021 financial statements: – Suggestions from the Government Finance Officers Association (GFOA) review for Excellence in Financial Reporting program. – Contemporary financial statement presentation by other Canadian cities. – KPMG's comments on the financial statements from the current and prior year. We have no concerns regarding financial statement presentation for the 2021 consolidated financial statements. ***2020 GFOA awards*** On March 11, 2022, management received recognition from the GFOA on their 2020 comprehensive annual financial report for producing annual reports that evidence the spirit of full disclosure and transparency. The City received a special Triple Crown medallion recognizing the following three GFOA awards associated with their 2020 annual report: the Canadian Award for Financial reporting, Distinguished Budget Presentation Award, and the Popular Annual Financial Reporting Award.
Significant qualitative aspects of financial statement presentation and disclosure	We have nothing to report.

Significant accounting policies and practices

Initial selections of significant accounting policies and practices

No new significant accounting standards were implemented in 2021.

Changes

No changes in accounting policies and practices to report.

Future Implementation

Accounting pronouncements issued but not yet effective are discussed in Appendix 4.

Significant qualitative aspects of the City's accounting policies and practices

Nothing to report.

Appendices

Content

Appendix 1: Other required communications

Appendix 2: Management representation letter

Appendix 3: Changes to auditing standards

Appendix 4: PSAB current accounting developments

Appendix 5: Current developments and insights

Appendix 6: Cyber security



Appendix 1: Other required communications

Auditors' Report

The conclusion of our audit is set out in our auditors' report which will be attached to the final 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 6 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, 2022

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, 2021. 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 information of which we are aware that is relevant to the preparation of the financial statements ("relevant information"), such as financial records, documentation and other matters, including:

      — the names of all related parties and information regarding all relationships and transactions with related parties;

      — the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of Council and Council Committees that may affect the financial statements. All significant actions are included in such summaries.

   c) providing you with unrestricted access to such relevant information.

   d) providing you with complete responses to all enquiries made by you during the engagement.

   e) providing you with additional information that you may request from us for the purpose of the engagement.

   f) providing you with unrestricted access to persons within the City from whom you determined it necessary to obtain audit evidence.

g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

h) 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 that involves:

— management;

— employees who have significant roles in internal control over financial reporting; or

— others

where such fraud or suspected fraud could have a material effect on the financial statements.

c) all information in relation to allegations of fraud, or suspected fraud, affecting the 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.

7) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

8) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

9) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

Assets & Liabilities – General:

10) The City has satisfactory title to all owned assets.

11) 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.

12) We have no knowledge of any plans or interactions that may materially affect the carrying value or classification of assets and liabilities.

Going concern:

13) 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:

14) 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:

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

16) 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:

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

Provisions:

18) 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:

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

Contractual Agreements:

20) 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:

21) The City has appropriately recognized, measured and disclosed environmental matters in the financial statements.

Non-Financial Assets:

22) 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:

23) The employee future benefits costs, assets and obligation, if any, have been determined, accounted for and disclosed in accordance with the financial reporting framework.

24) 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.

25) 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.

26) 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.

27) 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.

28) In arriving at these assumptions, management has obtained the advice of a specialist, but has retained the final responsibility for them.

29) The source data and plan provisions provided to the actuary, if necessary, for preparation of the actuarial valuation are accurate and complete.

30) 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.

31) 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.

32) All material events and changes to the plan subsequent to the most recent actuarial valuation have been properly reflected in the extrapolation.

33) 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:

34) 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.

35) 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.

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

Other:

37) 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.

38) 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.

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

Non-SEC registrants or non-reporting issuers:

40) We confirm that the City is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002).

Misstatements:

41) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

:

Yours very truly,

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

_____
Mr. Paul Olafson, CPA, CA
Corporate Controller

_____
Ms. Melissa Wensel, CPA, CA
Manager of Financial Reporting and Accounting Services

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.

Attachment II – Summary of Audit Misstatements Schedule

The City of Winnipeg

For Year Ended December 31, 2021

Summary of Corrected Audit Misstatements

	Effect if recorded on: Increase (decrease)			
	Assets	Liabilities	Accumulated surplus	Annual surplus
Correcting entry required at current period end:				
Cash	6,683,665	-	-	-
Investments	(6,683,665)	-	-	-
To adjust for an amount held in a high interest savings account that was initially classified as investments. A correction was made to properly reflect the amount as cash for financial statement purposes.				
Total corrected audit misstatements	-	-	-	-

Appendix 3: Changes to auditing standards

The following changes to auditing standards applicable to our 2022 audit are listed below.

Standard	Key observations
Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement*	Revised CAS 315, *Identifying and Assessing the Risks of Material Misstatement* has been released and is effective for audits of financial statements for periods beginning on or after December 15, 2021. The standard has been significantly revised, reorganized and enhanced to require a more robust risk identification and assessment in order to promote better responses to the identified risks. Key changes include: – Enhanced requirements relating to exercising professional skepticism – Distinguishing the nature of, and clarifying the extent of, work needed for indirect and direct controls – Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of controls – Introduction of scalability – Incorporation of considerations for using automated tools and techniques – New and revised concepts and definitions related to identification and assessment of risk – Strengthened documentation requirements CPA Canada plans to publish a Client Briefing document in early 2022 to help you better understand the changes you can expect on your 2022 audit.

Appendix 4: PSAB current accounting developments

Standard	Summary and implications
Asset Retirement Obligations	– The new standard is effective for fiscal years beginning on or after April 1, 2022. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs will be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard will require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets ("TCA"). The amount of the initial liability will be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity will have to: • Consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • Carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • Begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	– The new standard is effective for fiscal years beginning on or after April 1, 2023. The effective date was deferred by one year due to COVID-19. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange transaction, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.

Standard	Summary and implications
Financial Instruments and Foreign Currency Translation	– The accounting standards, PS3450 *Financial Instruments*, PS2601 *Foreign Currency Translation*, PS1201 *Financial Statement Presentation* and PS3041 *Portfolio Investments* are effective for fiscal years commencing on or after April 1, 2022. The effective date was deferred by one year due to COVID-19. – Equity instruments quoted in an active market and free-standing derivatives are to be carried at fair value. All other financial instruments, including bonds, can be carried at cost or fair value depending on the public sector entity's choice and this choice must be made on initial recognition of the financial instrument and is irrevocable. – Hedge accounting is not permitted. – A new statement, the Statement of Remeasurement Gains and Losses, will be included in the financial statements. Unrealized gains and losses incurred on fair value accounted financial instruments will be presented in this statement. Realized gains and losses will continue to be presented in the statement of operations. – In July 2020, PSAB approved federal government narrow-scope amendments to PS3450 *Financial Instruments* which will be included in the Handbook in the fall of 2020. Based on stakeholder feedback, PSAB is considering other narrow-scope amendments related to the presentation and foreign currency requirements in PS3450 *Financial Instruments*. The exposure drafts were released in summer 2020 with a 90-day comment period.
Employee Future Benefit Obligations	– PSAB has initiated a review of sections PS3250 *Retirement Benefits* and PS3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. In July 2020, PSAB approved a revised project plan. – PSAB intends to use principles from International Public Sector Accounting Standard 39 *Employee Benefits* as a starting point to develop the Canadian standard. – Given the complexity of issues involved and potential implications of any changes that may arise from the review of the existing guidance, PSAB will implement a multi-release strategy for the new standards. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. – PSAB released an exposure draft on proposed section PS3251, Employee Benefits in July 2021. Comments to PSAB on the proposed section are due by November 25, 2021. Proposed Section PS 3251 would apply to fiscal years beginning on or after April 1, 2026 and should be applied retroactively. Earlier adoption is permitted. The proposed PS3251 would replace existing Section PS 3250 and Section PS 3255. This proposed section would result in organizations recognizing the impact of revaluations of the net defined benefit liability (asset) immediately on the statement of financial position. Organizations would also assess the funding status of their post-employment benefit plans to determine the appropriate rate for discounting post-employment benefit obligations.

Standard	Summary and implications
Public Private Partnerships ("P3")	– PSAB has introduced Section PS3160, which includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. The standard has an effective date of April 1, 2023, and may be applied retroactively or prospectively. – The standard notes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The public sector entity recognizes a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure. – The infrastructure would be valued at cost, which represents fair value at the date of recognition with a liability of the same amount if one exists. Cost would be measured in reference to the public private partnership process and agreement, or by discounting the expected cash flows by a discount rate that reflects the time value of money and risks specific to the project.
Concepts Underlying Financial Performance	– PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – PSAB released four exposure drafts in early 2021 for the proposed conceptual framework and proposed revised reporting model, and their related consequential amendments. The Board is in the process of considering stakeholder comments received. – PSAB is proposing a revised, ten chapter conceptual framework intended to replace PS 1000 *Financial Statement Concepts* and PS 1100 *Financial Statement Objectives*. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – In addition, PSAB is proposing: • Relocation of the net debt indicator to its own statement and the statement of net financial assets/liabilities, with the calculation of net debt refined to ensure its original meaning is retained. • Separating liabilities into financial liabilities and non-financial liabilities. • Restructuring the statement of financial position to present non-financial assets before liabilities. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities), including a new component called "accumulated other". • A new provision whereby an entity can use an amended budget in certain circumstances. • Inclusion of disclosures related to risks and uncertainties that could affect the entity's financial position.

Standard	Summary and implications
Purchased Intangibles	– In October 2019, PSAB approved a proposal to allow public sector entities to recognize intangibles purchased through an exchange transaction. Practitioners are expected to use the definition of an asset, the general recognition criteria and the GAAP hierarchy to account for purchased intangibles. – PSAB has approved Public Sector Guideline 8 which allows recognition of intangibles purchased through an exchange transaction. Narrow-scope amendments were made to Section PS 1000 Financial statement concepts to remove prohibition on recognition of intangibles purchased through exchange transactions and PS 1201 Financial statement presentation to remove the requirement to disclose that purchased intangibles are not recognized. – The effective date is April 1, 2023 with early adoption permitted. Application may be retroactive or prospective.
2022 – 2027 Strategic Plan	– PSAB's Draft 2022 – 2027 Strategic Plan was issued for public comment in May 2021. Comments were requested for October 6, 2021. – The Strategic Plan sets out broad strategic objectives that help guide PSAB in achieving its public interest mandate over a multi-year period, and determining standard-setting priorities – The Strategic Plan emphasizes four key priorities: 1) Develop relevant and high-quality accounting standards - Continue to develop relevant and high-quality accounting standards in line with PSAB's due process, including implementation of the international strategy (focused on adapting International Public Sector Accounting Standards for new standards) and completion of the Conceptual Framework and Reporting Model project. 2) Enhance and strengthen relationships with stakeholders - Includes increased engagement with Indigenous Governments and exploring the use of customized reporting. 3) Enhance and strengthen relationships with other standard setters – In addition to continued collaboration with other standard setters, this emphasizes strengthened relationship with the IPSASB. 4) Support forward-looking accounting and reporting initiatives – Supporting and encouraging ESG reporting, and consideration of the development of ESG reporting guidance for the Canadian public sector.

Appendix 5: Current developments and insights

Thought leadership – Local governments

Thought leadership	Overview	Links
Cities portal	KPMG in Canada provides insights and resources for municipalities on a variety of topics including achieving sustainable infrastructure, the new reality for government in Canada, drinking water supply and park access.	Link to Canadian portal
The Future of Local Government	The Future of Local Government report provides a Canadian perspective for how local governments can meet the rapidly changing needs and expectations of their stakeholders – the citizens, partners and leaders across diverse cities and communities they serve.	Link to Canadian portal
The Future of Cities	The Future of Cities report unpacks our KPMG Global research and insights on the future of local government, providing an international viewpoint. The report traces the unprecedented journey ahead. Cities worldwide are now poised at a significant inflection point, as their leaders realize that long-held 'one-size-fits-all' approaches to planning and policies will likely no longer work to shape cities for a future that is truly healthy, sustainable, efficient and prosperous for all.	Link to Global portal
The Future of Government	The Future of Government report considers all levels of government and provides additional perspective from the content in the Future of Local Government report. It discusses the opportunity for governments to consider a different vision of Canadian social systems and how they can adapt their operations to reflect the needs of a modern Canada.	Link to Canadian portal
CX Coffee Chats: Modernizing Government	As a result of the pandemic, government organizations have been faced with unprecedented demand for digital transformation in the delivery of services to Canadians. In the latest installment of the CX Coffee Chat series, industry specialists discuss the evolving needs of Canadians and the opportunities for government organizations to deliver online services citizens can count on.	Link to Canadian portal
20 Predictions for the Next 20 Years	This series looks at how new technologies could evolve and how these advances will change every facet of our lives, including the industries and sectors that drive them. We asked KPMG in Canada subject matter specialists, across industries and sectors, to tell us know they think the world will change in the next two decades. Specifically for local governments, the political and regulatory predictions may be especially relevant.	Link to Canadian portal
Principles for Digital Transformation in Cities	This report was authored by KPMG and published as part of the World Government Summit. The report highlights the realization of 'smart digitalization' and how it differs across cities.	Link to report

Appendix 5: Current developments and insights (continued)

Thought leadership – Local governments (continued)

Thought leadership	Overview	Links
Gov take 5	Gov take 5 is an always-on platform for KPMG practitioners from around the world to share insights and ideas on a timely basis and trends facing the government and public sector. The ongoing video series will cover a variety of topics including digital transformation, ESG, economic growth and more.	Link to video series

Thought leadership – Environmental, social, and governance (ESG)

Thought leadership	Overview	Links
Unleashing the Positive in Net Zero	CoP26 in Glasgow made some progress to tackling climate change but there is much more to do. At KPMG, we're committed to accelerating the changes required to fight climate change. Our Global portal provides links to further thought leadership to help drive real change.	Link to Global portal
KPMG Climate Change Financial Reporting Resource Centre	KPMG's climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.	Link to Global portal
You Can't Go Green Without Blue – The Blue Economy is Critical to All Companies' ESG Ambitions	In this report, KPMG considers how leading corporates and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.	Link to Canadian portal
ESG, Strategy and the Long View	This paper presents a five-part framework to help organizations understand and shape the total impact of their strategy and operations on their performance externally – on the environment, consumers, employees, the communities in which it operates, and other stakeholders – and internally.	Link to Global portal
Inclusion and diversity practices	In 2021 societal changes brought more attention to inclusion and diversity. In this age of transparency, businesses must act proactively to implement strategic inclusion and diversity practices. It has become increasingly important for organizations to adopt I&D initiatives in order to foster an enjoyable work environment for their employees. Learn how to consider your own organizations' unique context, meet with the stakeholders you want to include, understand where they are at, and guide them along their own individual transformation journey.	Link to Canadian portal

Appendix 5: Current developments and insights (continued)

Thought leadership – Digital and technology

Thought leadership	Overview	Link
Going digital, faster in Canada	Pre-COVID-19, private and public organizations were moving towards a digital business model, travelling at varying speeds. But the pandemic forced a dramatic acceleration, both in the speed of change and the required investment to digitally transform. According to Canadian insights from KPMG's recent global survey, organizations are investing heavily in technology to address immediate concerns, ranging from falling revenue and interrupted supply chains to building longer-term competitiveness and operational resilience.	Link to Canadian portal

Thought leadership – Board, Audit Committee and C-Suite

Resources	Summary	Links
Accelerate	Our Accelerate series offer insight into the key issues that will drive the Audit Committee agenda in 2022 in a number of key areas: cyber-related risk, digital transformation in the finance function, the 'Great Resignation' impacting finance, climate-related physical risks, enterprise risk management, and building a climate-conscious organization.	Link to Canadian Accelerate 2022 Insights series
KPMG 2021 CEO Outlook – Canadian Insights	This year we surveyed over 1,300 CEOs globally and the results are pointing to an optimistic outlook amongst Canadian CEOs. Some of the key themes coming out of the survey include expectations for aggressive growth through expansion, investment in both people and technology as well as a focus on delivering on environmental, social and governance (ESG) and sustainability commitments.	Link to Canadian portal
Board Leadership Centre + Audit Committee Guide	KPMG in Canada Board Leadership Centre engages with directors, board members and business leaders to discuss timely and relevant boardroom challenges and deliver practical thought leadership on risk and strategy, talent and technology, globalization and regulatory issues, financial reporting and more. The new Audit Committee Guide – Canadian Edition from our Board Leadership Centre provides timely, relevant and trusted guidance to help both new and seasoned audit committee members stay informed.	Link to Canadian portal Link to 2021 guide

Appendix 5: Current developments and insights (continued)

Thought leadership – Audit quality and insights

Thought leadership	Overview	Links
Audit Quality and Transparency Report	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to Canadian portal Link to 2021 Global report
Audit and Assurance Insights	KPMG provides curated research and insights on audit and assurance matters for audit committees and boards.	Link to Canadian portal

Appendix 6: Cyber security

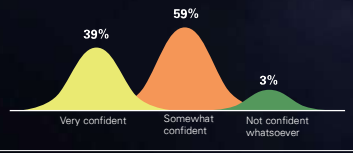
Canadian 2021 Cyber Security Awareness Month Poll: Key Findings

Leading up to National Cyber Security Awareness Month, we collected the thoughts and sentiments of **250 medium-sized companies** and **1000 consumers** from across Canada. Here's what both groups had to say:

BUSINESSES

Only **56%** have developed a comprehensive cyber playbook and run through cyber simulations regularly

How confident is your company in its ability to detect and respond to a cyber attack?



Nearly **2 in 5** have cybersecurity deeply embedded into all aspects of their business – integrated into all governance and management processes & have a cybersecurity leader who plays a key role

51% partially outsource or co-source cybersecurity functions to a managed security services provider (MSSP), and augment with in-house security operations capabilities

48% plan to devote up to **20%** of their tech budgets to cyber security over the next **12 months**

The types of cyber attacks businesses experienced during COVID-19:

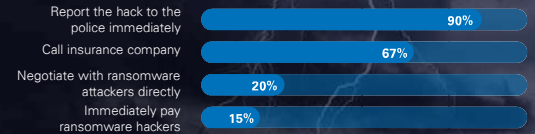
- **66%** phishing emails
- **38%** malware
- **16%** ransomware
- **15%** data breach
- **41%** spear phishing / business mail compromise / man in the middle attacks
- **23%** hackers
- **15%** Denial of Service (DoS) attack

86% implementing or planning to implement multi-factor authentication or password-less authentication for data access

94% say they continuously monitor their environments for potential cyberattacks

Nearly **3/4** said they are confident they are well protected from ransomware attacks

How would your company respond to a ransomware attack?





KPMG

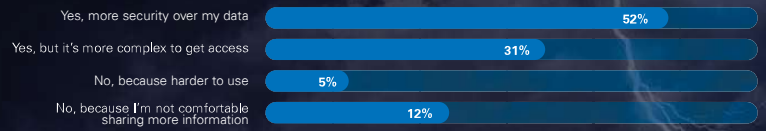
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CONSUMERS

8 in 10

are concerned about their personal data being compromised in a cyberattack on their financial institutions, retailers, wireless/ internet providers and governments

Do Canadians support additional authentication measures, like fingerprints, iris scans and user IDs, to access government/business services?



The age ranges that show the highest support for digital authentication:

25-34 55-64

Have you been the target or victim of a phishing email during COVID-19?

2020 **38%** → 2021 **46%**

Percentage of Canadians leery about sharing their personal or financial information with any organization that's had a cyberattack or data breach:

2020 **90%** ≈ 2021 **93%**

Only 1/5 consumers know how companies safeguard their data or where they store it

9 in 10

are extra careful when they shop online because they're afraid of their personal information being hacked or stolen



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