The City of Winnipeg

Audit Findings Report for the year ended December 31, 2022

KPMG LLP

Prepared April 27, 2023, for a meeting to be held on May 16, 2023

kpmg.ca/audit



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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 as at and for the year ended December 31, 2022. 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.

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This Audit Findings Report is also available as a "hyper-linked" PDF document.

If you are reading in electronic form (e.g. In "Adobe Reader" or "Board Books"), clicking on the home symbol on the top right corner will bring you back to this slide.

Click on any item in the table of contents to navigate to that section.

Audit highlights

Status of the audit

We have completed the audit of the consolidated financial statements ("financial statements") of the City of Winnipeg ("the City") as at and for the year ended December 31, 2022, with the exception of certain remaining outstanding procedures, which are highlighted on page 7 of this report.

Uncorrected audit misstatements

No matters to report.

Corrected audit misstatements

No matters to report.

Control deficiencies

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

Materiality

Materiality has been determined based on forecasted expenses. We have determined materiality to be $40.5M (2021 - $38.7M).

Independence matters

We confirm that we are independent with respect to the City 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, 2022 up to the date of this report.

Accounting policies and practices

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

Audit risks and results – significant risks

Refer to pages 9 to 15 for our response and significant findings for significant risks and areas of focus.

Audit risks and results – going concern assessment

No matters to report.

Current developments

Please refer to Appendices 3 to 6 for changes to auditing and accounting standards, as well as for the current development updates.

Audit quality: How do we deliver audit quality?

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.

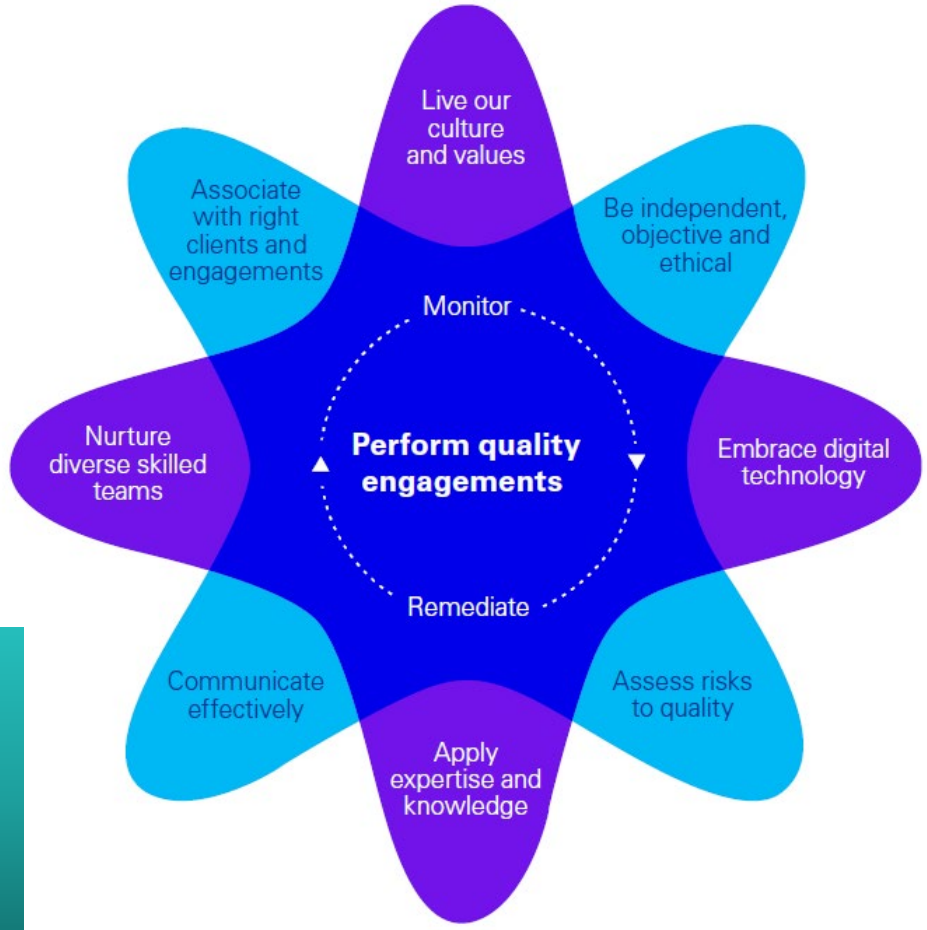
Perform quality engagement sits at the core along with our commitment to continually monitor and remediate to fulfil on our quality drivers.

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.

KPMG 2022 Audit Quality and Transparency Report

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.**



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.

Team composition

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, Brandon Ma, and our Engagement Quality Control Partner, Rob Kowalchuk, are both new to the team in 2022 and brought fresh eyes to our review of the financial statements and our audit approach.

Quality reviews

Our audit of the City of Winnipeg has not been subject to any internal or external reviews in the last year.

The 2020 audit file was subject to an internal review inspection during 2021, which resulted in no significant findings.

Technology in the audit

We utilized our new KPMG Clara audit platform, which is a modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

We utilized computer assisted auditing techniques (CAATs) to analyze journal entries and apply certain criteria to identify potential high-risk journal entries for further testing.

Timing of prepared by client (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 and questions on a timely basis.

Use of specialists

We involved specialists to assist with specific areas of the audit including:

- Bailey Church, National PSAS Advisory Partner, has been used as a resource for the transition to the new Asset Retirement Obligation standard to be implemented during fiscal 2023.
- IT specialists assist in our understanding of the City's IT environment.

Nothing to report | Some matters to report | Specific matters to report

Status of the audit

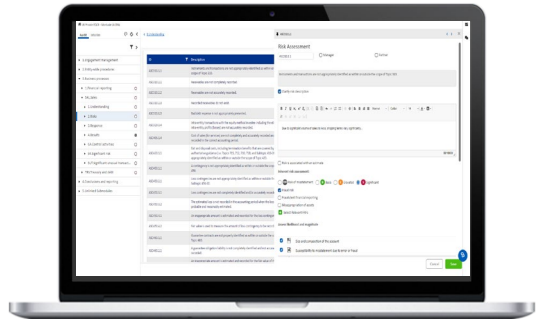
As of April 27, 2023, we have completed the audit of the financial statements of the City, with the exception of certain remaining procedures, which include the following:

- Updating our subsequent event procedures to the date of our auditors' report (May 16, 2023)
- Obtaining evidence of the Audit Committee'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 auditor's report, a draft of which is included in the draft financial statements, will be dated upon the completion of any remaining procedures.

KPMG Clara workflow

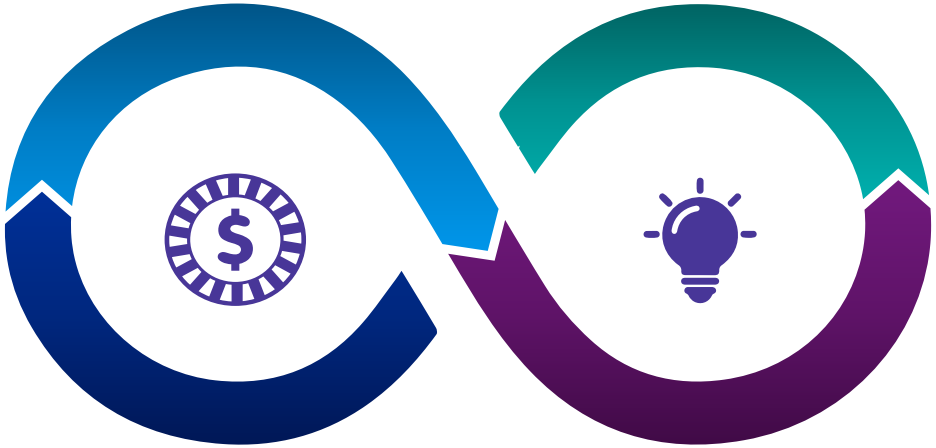


Globally consistent execution

A modern, intuitively written, highly applicable audit methodology that allows us to deliver globally consistent engagements.

Learn more

Materiality



We ***initially determine materiality*** at a level at which we consider that misstatements could reasonably be expected to influence the economic decisions of users. Determining materiality is a matter of ***professional judgement,*** considering both quantitative and qualitative factors, and is affected by our perception of the common financial information needs of users of the financial statements as a group. We do not consider the possible effect of misstatements on specific individual users, whose needs may vary widely.

We ***reassess materiality*** throughout the audit and revise materiality if we become aware of information that would have caused us to determine a different materiality level initially.

Benchmark: Forecasted expenditures

$1.82 billion

(This benchmark is consistent with the prior year)

Materiality

$40.5 million

(2021: $38.7 million)

Represents 2.2% of benchmark

Audit misstatement posting threshold

$2.02 million

(2021: $1.9 million)

Significant risks and results

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

Risk of management override of controls

Significant risk	Estimate?
Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.	No

Our response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporated 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 estimates
- evaluating the business rationale of significant unusual transactions.

Findings

No matters to report.

Other areas of focus

Area	Our response

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. The following government transfers were new in fiscal 2022:
	  – One-time provincial funding of $8.9M for road repair due to spring weather damage of which $900K was recognized in 2022 and the remaining $8M deferred and required to be spent on eligible expenditures in 2023.
	  – Additional funding of $19.4M was announced by the federal government relating to the impact of the pandemic on transit services (flowing through the Province) for the 2022 and 2023 years, with $9M of this funding recognized in 2022.
	  – ICIP funding received for two transit projects was received in 2022 with the majority being deferred at the end of 2022.
	– Agreed government transfers for capital purposes to agreements or confirmations, eligible expenditure reports, and bank deposit.
	– Assessed deferred revenue relating to certain government agreements with stipulations/ 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.
	– Performed substantive analytical procedures over sales of services (transit, water, waste & sewage) and regulatory fees.
	– Assessed reasonableness of developer contribution revenue, which is recorded at the fair value of the asset received .
	– Assessed reasonableness of allowance for property and business tax appeals, tax arrears, ambulance receivables, and other doubtful accounts receivable balances.

Significant findings

There were no significant issues noted in our testing.

Significant qualitative aspects of the Entity's accounting practices

Nothing to note.

Other areas of focus

Area	Our response
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. – 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. – 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.

Significant findings

No matters were found of significance to report.

Significant qualitative aspects of the Entity's accounting practices

Nothing to note.

Other areas of focus

Area	Our response
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.

Significant findings

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

Significant qualitative aspects of the Entity's accounting practices

Nothing to note.

Other areas of focus

Area	Our response
Employee benefit obligations	Our procedures included the following: - Obtained confirmation directly from the City's actuaries, Eckler Consultants & Actuaries, over the City's various pension plans, compensated absences and the retirement allowance programs and reconciled to the obligations and 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.

Significant findings

The retirement allowance liability was calculated using a discount rate of 4.5% compared to 2.4% in 2021. 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.

Significant qualitative aspects of the Entity's accounting practices

Nothing to note.

Other areas of focus

Area	Our response
Landfill liability	Our procedures included the following: - 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 future landfill closure costs. - Assessed management's estimates and assumptions used in the calculation of the landfill liability, including discount and inflation rates. - Reviewed the financial statement disclosure to assess if in compliance with the requirements of Canadian public sector accounting standards.

Significant findings

The following estimates are used to determine the landfill liability as at December 31, 2022:

- Estimate that the Brady landfill to have a remaining capacity of 82% (2021 – 82%) and its remaining life is estimated to be over 100 years.
- Discount rate of 4% (2021 – 3.5%) based on the City's budgeted long-term borrowing rate
- Inflation rate of 2.2% (2021 – 1.66%) using a rolling 10-year average.

We found the estimates and assumptions to be reasonable and supportable.

Significant qualitative aspects of the Entity's accounting practices

Nothing to note.

Other areas of focus

Area	Our response
Legal obligations	Our procedures included the following: - Obtained the 2022 Year-End Claims Report prepared by Legal Services detailing all claims against the City with a potential exposure of over $250,000 as at December 31, 2022. - Obtained analysis prepared by Corporate Finance assessing if a provision is required in accordance with Canadian public sector accounting standards. - Obtained confirmation of the details of significant claims directly from both Legal Service and five 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.

Significant findings

We concur with management's assessment over potential legal exposures and the resulting accounting treatment.

Significant qualitative aspects of the Entity's accounting practices

Nothing to note.

Control deficiencies

Consideration of internal control over financial reporting (ICFR)



In planning and performing our audit, we considered ICFR relevant to the Entity's preparation 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 financial statements, but not for the purpose of expressing an opinion on ICFR.

Our understanding of internal control over financial reporting was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies. The matters being reported are limited to those deficiencies that we have identified during the audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

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. Had we performed more extensive procedures on internal control over financial reporting, we might have identified more significant deficiencies to be reported or concluded that some of the reported significant deficiencies need not, in fact, have been reported.

A deficiency in internal control over financial reporting



A deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively.

Significant deficiencies in internal control over financial reporting



A significant deficiency in internal control over financial reporting 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.

Significant accounting policies and practices

Initial selections of significant accounting policies and practices

- There have been no initial selections of, or changes to, significant accounting policies and practices.
- There were no significant accounting policies in controversial or emerging areas.
- See Appendix 4: Newly effective and upcoming changes to accounting standards for more information.

Description of new or revised significant accounting policies and practices

Nothing to report

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

Management assessed the accounting treatment over their Transcona Joint Venture with Genstar, which experienced growth during 2022. The Joint Venture was previously accounted for using the modified equity method but management has determined the proper accounting treatment would be to proportionately consolidate the joint venture. As the difference between these two accounting treatments does not have a significant impact to the 2022 financial statements, management chose to defer this change in accounting treatment to be implemented in the 2023 financial statements.

KPMG reviewed management's assessment and concurs that the impact is not significant and is below our audit misstatement posting threshold.

Other than the above noted, nothing additional to report.

Appendices

1. Required communications
2. Management representation letter
3. Newly effective auditing standards
4. Newly effective accounting standards
5. Changes in accounting standards
6. Audit and assurance insights
7. Thought leadership and insights
8. Cyber Survey

Appendix 1: Other required communications

Required inquiries – Audit Committee

Fraud risks:

1. What are your views about fraud risks, including management override of controls, at the City and whether you have taken any actions to respond to these risks?
2. How do you oversee fraud risk assessments and the establishment of controls to address fraud risks?
3. Are you aware of or have you received tips or complaints regarding the City's financial reporting and, if so, what was your response to such tips and complaints?
4. Are you aware of, or have you identified, any instances of actual, suspected, or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?

Related party transactions:

1. What is the Audit Committee's understanding of the City's relationships and transactions with related parties that are significant to the City?
2. Does any member of the Audit Committee have concerns regarding relationships or transactions with related parties and, if so, what are the substance of those concerns?

Significant, unusual transactions:

1. Has the City entered into any significant unusual transactions?

Appendix 2: Management representation letter

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

May 16, 2023

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, 2022. 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 and amendment dated March 23, 2023 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).

:

Yours very truly,

_____
Ms. Catherine Kloepfer, Chief Financial Officer

_____
Mr. John Speidel, Corporate Controller

_____
Ms. Melissa Wensel, Manager of Finance

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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

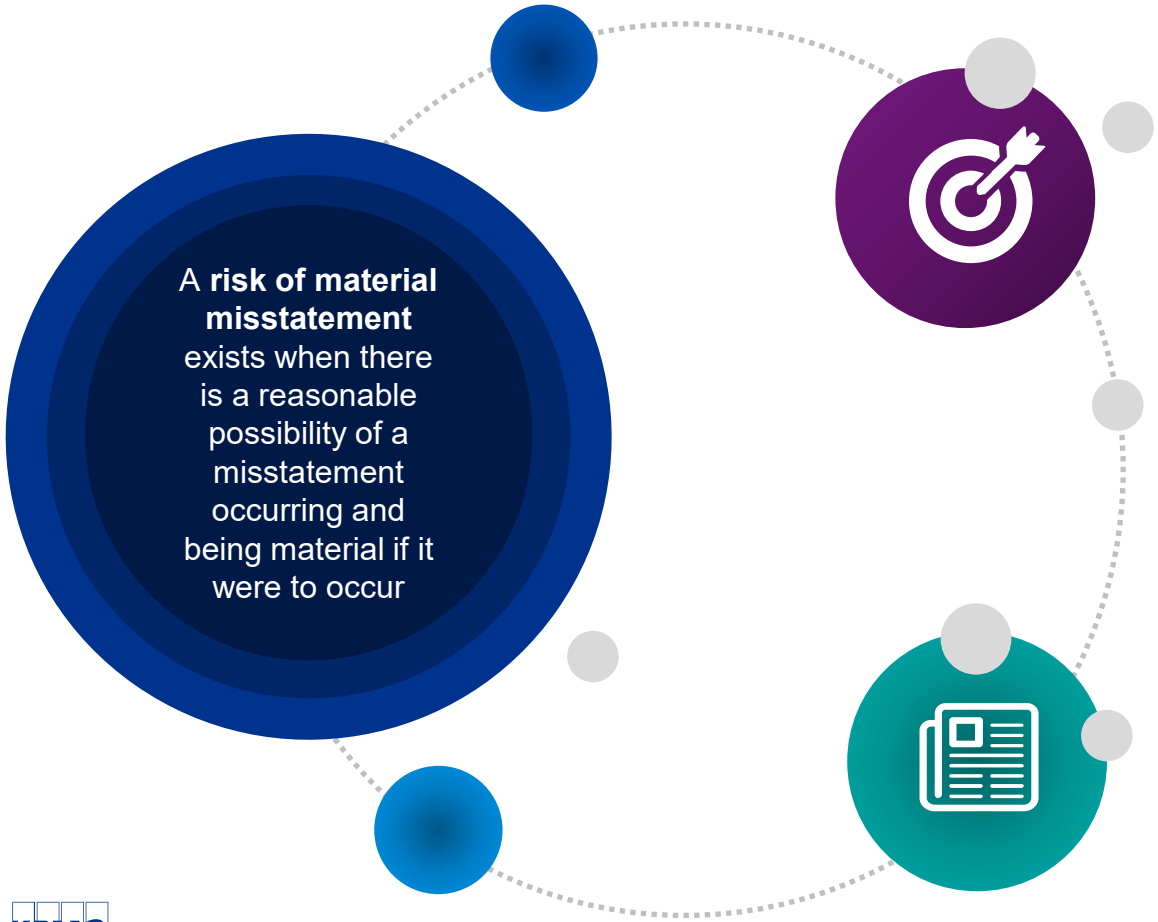
Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

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: Newly effective auditing standards

CAS 315 (Revised) Identifying and Assessing the Risks of Material Misstatement has been revised, reorganized and modernized in response to challenges and issues with the previous standard. It aims to promote consistency in application, improve scalability, reduce complexity, support a more robust risk assessment and incorporate enhanced guidance material to respond to the evolving environment, including in relation to information technology. Conforming and consequential amendments have been made to other Canadian Auditing Standards.



Affects both preparers of financial statements and auditors

Applies to the audit of the City's 2023 financial statements

See here for more information from CPA Canada

We design and perform risk assessment procedures to obtain an understanding of:

- The City and its environment;
- The financial reporting requirements in Canadian public sector accounting standards; and
- The City's system of internal control.

The audit evidence obtained from this understanding provides a basis for:

- Identifying and assessing the risks of material misstatement, whether due to fraud or error; and
- The design of audit procedures that are responsive to the assessed risks of material misstatement.

Appendix 3: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including: • New requirement to take into account how, and the degree to which, 'inherent risk factors' affect the susceptibility of relevant assertions to misstatement. • New concept of significant classes of transactions, account balances and disclosures and relevant assertions to help us to identify and assess the risks of material misstatement. • New requirement to separately assess inherent risk and control risk for each risk of material misstatement. • Revised definition of significant risk for those risks which are close to the upper end of the spectrum of inherent risk.	When assessing inherent risk for identified risks of material misstatement, we consider the degree to which inherent risk factors (such as complexity, subjectivity, uncertainty, change, susceptibility to management bias) affect the susceptibility of assertions to misstatement. We use the concept of the spectrum of inherent risk to assist us in making a judgement, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement. The changes may affect our assessments of the risks of material misstatement and the design of our planned audit procedures to respond to identified risks of material misstatement. If we do not plan to test the operating effectiveness of controls, the risk of material misstatement is the same as the assessment of inherent risk.	If the effect of this consideration is that our assessment of the risks of material misstatement is higher, then our audit approach may increase the number of controls tested and/or the extent of that testing, and/or our substantive procedures will be designed to be responsive to the higher risk. We may perform different audit procedures and request different information compared to previous audits, as part of a more focused response to the effects identified inherent risk factors have on the assessed risks of material misstatement.

Appendix 3: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Overall, a more robust risk identification and assessment process, including evaluating whether the audit evidence obtained from risk assessment procedures provides an appropriate basis to identify and assess the risks of material misstatement.	When making this evaluation, we consider all audit evidence obtained, whether corroborative or contradictory to management assertions. If we conclude the audit evidence obtained does not provide an appropriate basis, then we perform additional risk assessment procedures until audit evidence has been obtained to provide such a basis.	In certain circumstances, we may perform additional risk assessment procedures, which may include further inquires of management, analytical procedures, inspection and/or observation.
Overall, a more robust risk identification and assessment process, including performing a 'stand back' at the end of the risk assessment process.	We evaluate whether our determination that certain material classes of transactions, account balances or disclosures have no identified risks of material misstatement remains appropriate.	In certain circumstances, this evaluation may result in the identification of additional risks of material misstatement, which will require us to perform additional audit work to respond to these risks.

Appendix 3: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Modernized to recognize the evolving environment, including in relation to IT.	New requirement to understand the extent to which the business model integrates the use of IT. When obtaining an understanding of the IT environment, including IT applications and supporting IT infrastructure, it has been clarified that we also understand the IT processes and personnel involved in those processes relevant to the audit. Based on the identified controls we plan to evaluate, we are required to identify the: • IT applications and other aspects of the IT environment relevant to those controls; and • related risks arising from the use of IT and the entity's general IT controls that address them. Examples of risks that may arise from the use of IT include unauthorized access or program changes, inappropriate data changes, risks from the use of external or internal service providers for certain aspects of the entity's IT environment or cybersecurity risks.	We will expand our risk assessment procedures and are likely to engage more extensively with your IT and other relevant personnel when obtaining an understanding of the entity's use of IT, the IT environment and potential risks arising from IT. This might require increased involvement of IT audit professionals. Changes in the entity's use of IT and/or the IT environment may require increased audit effort to understand those changes and affect our assessment of the risks of material misstatement and audit response. Risks arising from the use of IT and our evaluation of general IT controls may affect our control risk assessments, and decisions about whether we test the operating effectiveness of controls for the purpose of placing reliance on them or obtain more audit evidence from substantive procedures. They may also affect our strategy for testing information that is produced by, or involves, the entity's IT applications.
Enhanced requirements relating to exercising professional skepticism.	New requirement to design and perform risk assessment procedures in a manner that is not biased toward obtaining audit evidence that may be corroborative or toward excluding audit evidence that may be contradictory. Strengthened documentation requirements to demonstrate the exercise of professional scepticism.	We may make changes to the nature, timing and extent of our risk assessment procedures, such as our inquires of management, the activities we observe or the accounting records we inspect.

Appendix 3: Newly effective auditing standards (continued)

Key change	Impact on the audit team	Impact on management
Clarification of which controls need to be identified for the purpose of evaluating the design and implementation of a control.	We will evaluate the design and implementation of controls that address risks of material misstatement at the assertion level as follows: • Controls that address a significant risk. • Controls over journal entries, including non-standard journal entries. • Other controls we consider appropriate to evaluate to enable us to identify and assess risks of material misstatement and design our audit procedures	We may identify new or different controls that we plan to evaluate the design and implementation of, and possibly test the operating effectiveness to determine if we can place reliance on them. We may also identify risks arising from IT relating to the controls we plan to evaluate, which may result in the identification of general IT controls that we also need to evaluate and possibly test whether they are operating effectively. This may require increased involvement of IT audit specialists.

Appendix 4: Newly effective accounting standards

PS 3280 Asset Retirement Obligations ("PS 3280") is a new accounting standard effective for the City's fiscal year ending December 31, 2023. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. This significant new accounting standard has implications that have the potential to go beyond financial reporting.

Financial reporting implications

A liability for asset retirement costs will be recorded with a corresponding increase in the cost of tangible capital assets in productive use, resulting in a decrease (increase) to the net financial assets (net debt) reported in the Statement of Financial Position.

Asset retirement obligations associated with tangible capital assets that are not recognized or no longer in productive use are expensed.

Additional non-cash expenses for the amortization of tangible capital assets and accretion will be recognized annually.

The total cost of legally required retirement activities will be recognized earlier in a tangible capital asset's life. There is no change to the total cost recorded over an asset's life.

A process needs to be established to support updates to the ARO measurement on an annual basis post-initial implementation.

Asset management implications

The asset retirement date used to determine the asset retirement liability needs to be consistent with the useful life of the related tangible capital asset. As a result, public sector entities need to assess whether the useful lives of tangible capital assets continue to be accurate and consistent with asset management plans.

Many public sector entities are using the implementation of PS 3280 as an opportunity to develop or refine their asset management plans.

Funding implications

PS 3280 does not provide guidance on how the asset retirement liability should be funded. Many public sector entities currently fund retirement costs as they are incurred at the end of the asset's life. Public sector entities will need to assess whether this practice remains appropriate or if funding will be obtained over the life of the asset.

Budget implications

In addition to budgeting for costs associated with the initial implementation of PS 3280, public sector entities will need to consider if the non-cash accretion expense and additional amortization expense will be included in the annual budget.

Public sector entities operating under balanced budget legislation or similar guidelines will need to obtain guidance from the provincial government or governance bodies to determine the impact of PS 3280 on current requirements.

Capital planning implications

PS 3280 requires legal obligations associated with the retirement of tangible capital assets to be recorded when the assets are acquired, constructed, or developed. As a result, the cost of legally required retirement activities will need to be considered at the inception of a capital project to determine the financial viability and impact of the project.

Appendix 4: Newly effective accounting standards (continued)

PS 3280 Asset Retirement Obligations ("PS 3280") is a new accounting standard effective for the City's fiscal year ending December 31, 2023. This standard addresses the reporting of legal obligations associated with the retirement of certain tangible capital assets by public sector entities. The following checklist is intended to provide you with reminders for key activities in each phase of your PS 3280 implementation project. The items noted are not a complete list of factors influencing the successful adoption of PS 3280, nor is it intended to provide any type of assurance.

Project planning

- ☐ Project team is cross-functional and includes Finance and non-Finance personnel.
- ☐ Sufficient personnel resources are available for the implementation project.
- ☐ Where required, external experts have been engaged.
- ☐ The project plan identifies who is responsible for each project task.
- ☐ Project timelines are reasonable.
- ☐ Auditor involvement has been scheduled at each significant project milestone.
- ☐ Asset retirement obligations policy has been drafted.
- ☐ Funding is available for PS 3280 implementation costs.
- ☐ Recurring project updates are provided to the Audit Committee or other governance body to engage them in the implementation process.

Scoping

- ☐ The tangible capital assets listing reconciles to the audited financial statements.
- ☐ Agreements (e.g., leases, statutory rights of way, etc.) have been reviewed for potential legal obligations.
- ☐ Productive and non-productive assets have been included in the scoping analysis.
- ☐ Assets with similar characteristics and risks have been grouped together in the scoping analysis.
- ☐ All relevant legal acts, regulations, guidelines, etc. have been identified.
- ☐ Relevant internal stakeholders have been interviewed to obtain information about potential retirement obligations.

Measurement

- ☐ Cost information is relevant and reliable.
- ☐ Only costs directly attributable to legally required retirement activities have been included in the liability.
- ☐ If applicable, the discount rate is consistent with the risks and timelines inherent in the cash flows.
- ☐ If discounting is applied, it is based on reliable information to inform the timing of future cash flows.
- ☐ Asset retirement obligations have been linked to specific tangible capital assets.
- ☐ The useful life of the tangible capital asset remain appropriate and are consistent with estimated asset retirement date.
- ☐ The transition method selected is appropriate based on the measurement information available.
- ☐ Calculations are mathematically accurate.

Financial reporting

- ☐ Financial statements have been mocked up to include asset retirement obligations.
- ☐ Note disclosures, including significant accounting policies, have been drafted.
- ☐ Documentation prepared during the project has been reviewed to ensure it is accurate and complete.
- ☐ Plans have been implemented for the annual post-implementation review and update of the asset retirement obligation liability.

Appendix 5: Changes in accounting standards

Standard	Summary and implications
Revenue	• The new standard PS 3400, *Revenue*, is effective for fiscal years beginning on or after April 1, 2023. • The new standard establishes a single framework to categorize revenue to enhance the consistency of revenue recognition and its measurement. • The standard notes that in the case of revenue 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 revenue arises 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.
Purchased Intangibles	• The new PS Guideline 8, *Purchased intangibles*, is effective for fiscal years beginning on or after April 1, 2023 with earlier adoption permitted. • The guideline allows public sector entities to recognize intangibles purchased through an exchange transaction. The definition of an asset, the general recognition criteria and GAAP hierarchy are used to account for purchased intangibles. • Narrow scope amendments were made to PS 1000, *Financial statement*, *concepts* to remove the prohibition to recognize purchased intangibles and to PS 1201, *Financial statement presentation*, to remove the requirement to disclose purchased intangibles not recognized. • The guideline can be applied retroactively or prospectively.
Public Private Partnerships	• The new standard PS 3160, *Public private partnerships*, is effective for fiscal years beginning on or after April 1, 2023. • The standard includes new requirements for the recognition, measurement and classification of infrastructure procured through a public private partnership. • 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 public private partnership 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. • The standard can be applied retroactively or prospectively.

Appendix 5: Changes in accounting standards (continued)

Standard	Summary and implications
Concepts Underlying Financial Performance	• The revised conceptual framework is effective for fiscal years beginning on or after April 1, 2026 with earlier adoption permitted. • The framework provides the core concepts and objectives underlying Canadian public sector accounting standards. • The ten chapter conceptual framework defines and elaborates on the characteristics of public sector entities and their financial reporting objectives. Additional information is provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts are introduced.

Financial Statement Presentation	• The proposed section PS 1202, *Financial statement presentation*, will replace the current section PS 1201, *Financial statement presentation*. PS 1202, *Financial statement presentation*, will apply to fiscal years beginning on or after April 1, 2026 to coincide with the adoption of the revised conceptual framework. Early adoption will be permitted.
	• The proposed section includes the following:
	  • Relocation of the net debt indicator to its own statement called 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 total assets followed by total 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.
	• The Public Sector Accounting Board is currently deliberating on feedback received on exposure drafts related to the reporting model.

Appendix 6: Audit and assurance insights

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

KPMG Audit & Assurance Insights
Curated research and insights for Audit Committees and Boards.

KPMG Climate Change Financial Reporting Resource Centre
Our climate change resource centre provides insights to help you identify the potential financial statement impacts to your business.

Board Leadership Centre
Leading insights to help Board members maximize boardroom opportunities



Momentum
A quarterly newsletter providing curated insights for management, boards and Audit Committees.

Audit Committee Guide – Canadian Edition
A practical guide providing insight into current challenges and leading practices shaping Audit Committee effectiveness in Canada

Uncertain Times Financial Reporting Resource Centre
Uncertain times resource center provides insights to support clients facing challenges relating to COVID-19, natural disasters and geopolitical events.

KPMG Learning Academy
Technical accounting and finance courses designed to arm you with leading-edge skills needed in today's disruptive environment.

Environmental, social and governance ("ESG")
Building a sustainable, resilient and purpose-led organization

Other Insights

Appendix 7: Thought leadership and insights

What is ESG?

ESG is a framework to integrate environmental, social and governance risks and opportunities into an organization's strategy to build long term financial sustainability and create value. ESG includes a wide range of non-financial scoring categories, used by investors and other stakeholders to assess the impact of a company's products and business practices on sustainability and social causes.

Environmental

Our IMPACT on our planet

- Climate change
- Greenhouse gas ("GHG") emissions
- Natural resource depletion
- Waste and pollution
- Deforestation
- Hazardous materials
- Biodiversity

Social

Our IMPACT in our communities

- Working conditions, including slavery and child labour
- Impact on local communities
- Conflict regions
- Health and safety
- Employee diversity, equity, and inclusion
- Product mis-selling
- Data protection

Governance

Our conduct

- Executive pay
- Bribery and corruption
- Political lobbying and donations
- Board diversity and structure
- Tax strategy
- Data breaches

ESG strategies can help entities deliver long-term value through effective engagement with all stakeholders – generating trust and a competitive advantage.

Appendix 7: Thought leadership and insights (continued)

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

Note: Click on images to visit document link.



CoP26 made progress towards tackling climate change, but there is much more to do.

At KPMG, we're committed to accelerating the changes required to fight climate change.



The Green City outlines the need of the cities and the buildings in them to reflect climate consciousness.

The link provides guidance on what that looks like and the first steps to meeting those objectives.



In this report, KPMG considers how leading corporations and investors can take action to capture the value that can be found in a healthy, sustainable ocean economy.



This report outlines the updates in regulatory sustainability reporting.

Its focus is comparing and contrasting proposals from the ISSB, EFRAG, and the SEC.



This highlights a five-part framework to help organizations shape the total impact of strategy and operations on performance both externally, and internally.

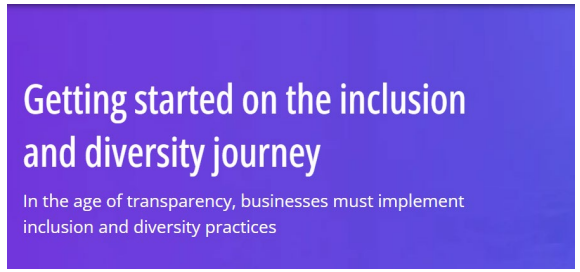


This article outlines the importance of Gender-lens investing and how it aims on promoting equity and sustainability.

Appendix 7: Thought leadership and insights (continued)

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

Note: Click on images to visit document link.



In this age of transparency, businesses must act proactively to implement strategic inclusion and diversity ("I&D") practices.

This link is a guide for organizations on their own transformation journey.



As the severity of climate impacts increase, so do the socio-economic disruptions due to the risk and fall of climate impacted sectors and projects.

This article breaks down the impact on institutional investors.



The "S" in ESG is becoming critical as people and organizations become more conscious about how the social aspect of business will impact their future.

This article touches on the social movements driving business change.



This article outlines how ESG is impacting valuation and performance of the underlying companies institutional investors have a stake in.

Market statistics highlight the issues surrounding responsible investment.

KPMG's 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.

Click here to access KPMG's portal.

A closer look at the GHG Protocol

Chartered Professional Accountants of Canada (CPA Canada) and the Institute for Sustainable Finance (ISF) produced a 23-page report (click here) on the GHG Protocol. The report looks to inform potential preparers and users of emissions disclosure; policy makers; standard setters; regulators; and others, and to spur important additional research into key aspects of emissions disclosure and standards that require closer attention.

Appendix 7: Thought leadership and insights (continued)

ESG Discovery | Client journey

What is ESG Discovery?

- ESG Discovery through KPMG Ignition is a 3-hour session held virtually or in-person, bringing you relevant insights to inspire thinking and inspire change.

Why book an ESG Discovery session?

- The consideration of ESG (Environmental, Social and Governance) factors has become critical to the success of organizations across all sectors including yours.

Time commitment for you and selected individuals

- Sponsor attends 30-min kick-off call.
- Provided ESG 101 material and a 15-minute ESG self-assessment questionnaire.
- All participate in a 3-hour ESG Discovery session.
- Sponsor attends a 30-minute debrief following session with KPMG

What we'll cover

- Overview of ESG and how it applies to your organization and industry.
- Results and analysis of self-assessment.
- Identification of ESG stakeholders and their interests.
- Scenario planning exercises.
- Prioritization of key actions.

Exceptional experience

- Explore and better understand your organization's ESG challenges and opportunities through a highly interactive ideation session that will help you prioritize next steps on your ESG journey.

What you'll get

- An understanding of current and future state impacts of ESG to your organization.
- Clarity of the ESG priority areas for your organization going forward – and how KPMG can help

Next steps

- Connect with your KPMG Partner to explore booking an ESG Discovery session for your organization.

Appendix 7: Thought leadership and insights (continued)

Thought leadership – Public sector

Voices on 2030: Digitalizing Government

What will the world look like in 2030? How will citizen and customer expectations evolve? And what can public sector organizations be doing today to help ensure they can meet these expectations? We spoke with leaders and disruptors from around the world, across the public and private sector to explore answers to these questions.

Click here to access KPMG's portal.

Why Audit Committees Should Know About Asset Retirement Obligations

Many public sector entities are currently working through the various aspects of the implementation of the Asset Retirement Obligation standard. In this publication we have provided some key insights to make this complex topic easy to understand by senior level management and those charged with governance at these organizations.

Click here to access KPMG's portal.

Perspectives on PS 3280, *Asset Retirement Obligations*

This guide provides KPMG's perspective on key implementation issues and technical interpretations of the guidance in PS 3280.

Contact your KPMG team for your copy of the guide.

Appendix 8: Cyber Security

Audit committees need to look internally to fight cyber threats

Defending against cyberattacks starts with looking at an organization's processes, controls and partners

By Hartaj Nijjar

Hacks and breaches can be costly, damage the reputation of a company and open it to litigation—making cybersecurity one of the most pressing issues facing organizations today. Companies must have a cyber strategy both to protect their operations and to secure customer data. Audit committees, overseeing many of the company's activities and performance, must be certain management is keeping up with the evolving threat landscape and has sound strategies in place to identify and mitigate risk.

The threat landscape is ever-evolving

In the latest KPMG *CEO Outlook*, 85 per cent of Canadian CEOs surveyed said that having a strong cyber strategy is critical to building trust with key stakeholders. But building a strong cyber strategy is challenging as the threat landscape continuously evolves. We're seeing a rise in hacks on mobile devices, as well as nation-state hacking and deep fakes being used for political gain. Cybercriminals are also selling turnkey solutions to less tech-savvy threat actors so they can gain access to organizations and do damage.

In light of the current geopolitical unrest, organizations are paying more attention to potential threats to their operational technology and the effects that attacks on critical infrastructure could have on their own business and beyond.

Regulators are governing the use of personal information

A major evolution taking place globally isn't necessarily a new threat, but a new regulatory environment. In line with this global movement–and inspired by regulations such as the General Data Protection Regulation (GDPR) in Europe—Quebec introduced Bill 64, *An Act to modernize legislative provisions respecting the protection of personal information.* The first set of requirements was rolled out on September 22, 2022, and the remaining requirements will be rolled out in 2023 and 2024.

> The audit committee plays a strategic oversight role of risk management activities and monitoring procedures related to cybersecurity. A growing remote workforce, adoption of cloud services, and accelerated digital transformation have made their role even more critical.

Hartaj Nijjar
Partner, Cyber Security
KPMG in Canada



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Bill 64 applies to Quebec-based companies and out-of-province companies doing business in Quebec that either collect, process or hold the personal information of Quebec residents. It forces companies to be more rigorous and transparent with their personal data practices by setting out new regulations around such things as breach reporting, privacy officers, consent and anonymization of data. Audit committees will want to question management on the ramifications for their organization and ensure there's a plan to be compliant.

Organizations should also view the Quebec legislation as a bellwether. Similar legislation is expected to be rolled out Canada-wide, and if other jurisdictions offer a hint of what's to come, the fines for non-compliance may be material. Beyond satisfying regulatory requirements, organizations should use this new bill as a catalyst to examine their data and privacy practices.

One of the first steps is to determine what data they need to be collecting. They'll also need to consider how they're collecting the information and where all the personally identifiable data sits within the organization, including structured and unstructured storage. They should also ensure they have adequate access controls and implement procedures and processes to monitor and track data.

This requires examining the data lifecycle from ingestion to destruction, and ensuring controls are wrapped around the data at each point it touches the organization. If data is being stored in the elsewhere, then the controls of third and fourth parties may need to be audited. Large organizations likely have many distributed systems of controls. Where this is the case, the aim should be to centralize controls across the whole enterprise as much as possible which would make it easier to enforce a standard set of controls.

Questions audit committees should be asking:

- How rigorous is our data protection strategy and is it sufficient in the face of growing regulation?
- How are we identifying blind spots?
- How are we vetting third and fourth parties and ensuring their continued compliance with our requirements?
- How are we protecting our automated processes and verifying that the bots we're using throughout the company have not been tampered with?

This initiative will be resource-and time-intensive. But the biggest hurdle most firms will face is directing the investment needed and finding the right talent. Audit committees should be asking management about their data and privacy controls, and ensuring the company is directing sufficient resources to implement these measures and hire the necessary talent.

Organizations are looking for blind spots

Companies also need to devote resources to identifying blind spots. These are 'black swan' events that they haven't thought of yet. For example, recent high-profile cloud and telco outages interrupted the operations of large swaths of customers. These outages have prompted organizations to ask where they potentially have blind spots that might affect their operations and then develop resiliency to ensure they can weather the next event.

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There's no real science to this exercise. It involves brainstorming potential catastrophes and imagining how and where they might impact the organization. This should start with the most critical processes, tracing them from beginning to end, and examining interconnections with people, processes, infrastructure, and applications. The aim is to identify points where something could go wrong (internally or externally), to put controls in place at these points and then create fail-safe plans in case these controls break down. Audit committees will want to ask management what the company is doing to identify potential disruptive events and what resiliency plans they're putting in place to mitigate risk.

Third-party risk is on the agenda

The search for blind spots is made more necessary because almost all organizations are reliant on third parties for services or data. This exposes them to the risk of third-party outages that could affect vital services. But it also exposes them to the risk that a cyber breach in their value chain could extend into the organization. Identifying and managing third-and even fourth-party risk is on the agenda of most boards and audit committees.

Traditional practice is to have vendors fill out questionnaires about their controls and data protection practices and sign contracts stipulating they will maintain certain safeguards and controls. But it's difficult, costly and time-consuming to verify these third-party practices and there's no guarantee that vendors are in turn vetting their third parties—leaving them, and your organization, exposed to risk.

Audit is automating

There's a strong push to automate as organizations look to become more efficient or move employees to higher-value functions. Increasingly, automation is being used for operational monitoring and control executions, which means audit committees need to understand how management has confidence in the efficacy of these automated controls—that they've been implemented properly and are being operated effectively.

Automation is also being employed in the audit function. Audits are time-consuming and labour-intensive, so audit teams are turning to automation to continuously assess subsets of controls (rather than picking samples from periods during the year). This increases quality and allows audit teams to focus on more complex control assessments.

While automation in these areas is helping to drive efficiencies, it also introduces new targets for potential cyber attacks. Audit committees need to ensure that management has a solid understanding of how bots are being used in the company and can recognize signs of potential tampering.

Developing a strong cyber strategy often starts with looking at an organization's own processes, controls and partners. Audit committees looking to gain reassurance around cybersecurity and privacy protection will want to be sure management has examined their processes from beginning to end, identified areas of potential vulnerability, and put in place plans for controls.

Contact us

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