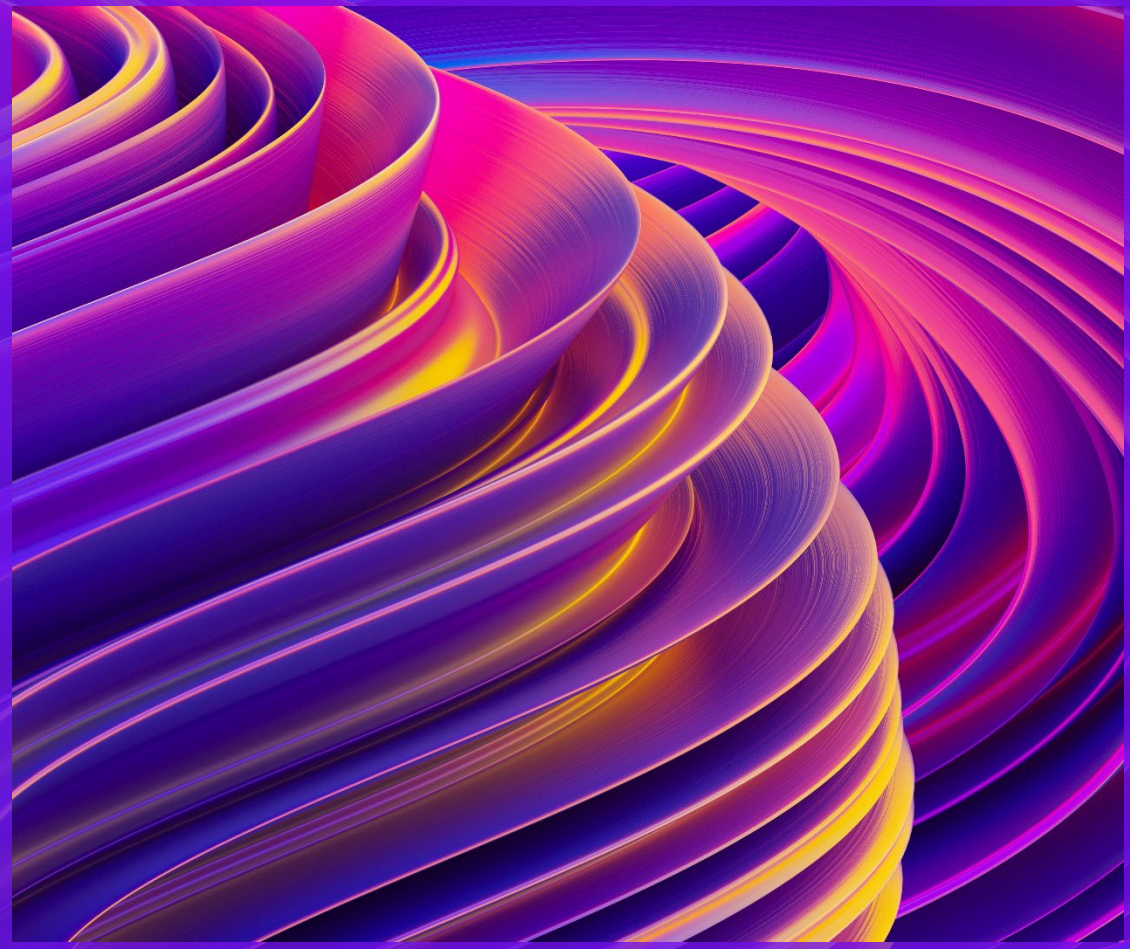
KPMG

The City of Winnipeg



Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Prepared as of April 30, 2024 for presentation to the Audit Committee on May 22, 2024

kpmg.ca/audit

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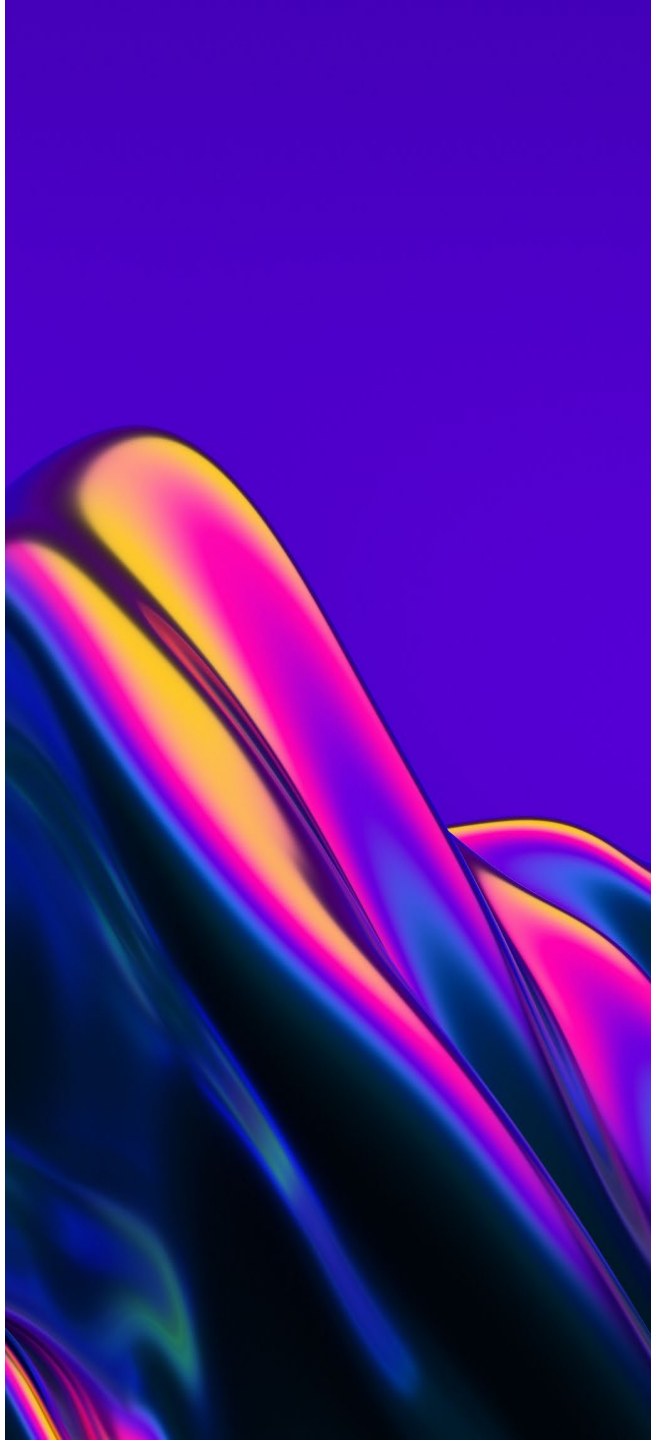

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The purpose of this report is to assist you, as a member of the Audit Committee, in your review of the results of our audit of the financial statements. This report is intended solely for the information and use of Management and the Audit Committee 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.

Digital use information

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

No matters to report

Matters to report – see link for details

Status

We have completed the audit of the financial statements ("financial statements") of the City of Winnipeg (the "City") as at and for the year ended December 31, 2023, with the exception of certain remaining outstanding procedures, which are highlighted on the 'Status' slide of this report.

Materiality

Materiality - $41.5 million

Policies and practices & Specific topics

- Significant unusual transactions
- Accounting policies and practices
- Other financial reporting matters

Control deficiencies

- Significant deficiencies

Risks and results

Significant risks

- Risk of management override of controls

Other risks of material misstatement

- Asset retirement obligation
- Financial instruments
- Revenue and accounts receivable
- Tangible capital assets
- Employee related expenses and employee benefit obligations
- Litigations

Uncorrected misstatements

- Uncorrected misstatements

Corrected misstatements

- Corrected misstatements

Status

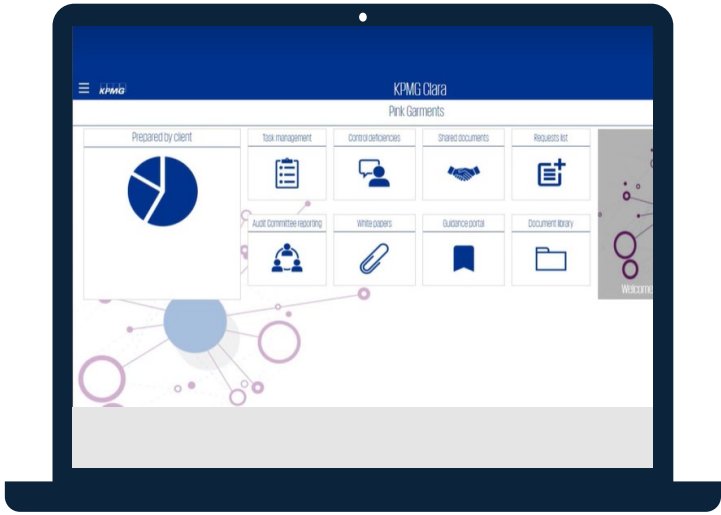
As of April 30, 2024, we have completed the audit of the financial statements of the City, with the exception of certain remaining procedures, which include amongst others:

- Receipt of legal letters from two external law firms
- Receipt of signed management representation letter
- Updating our subsequent event procedures to the date of our auditor's report
- Completing our discussions with the Audit Committee
- Obtaining evidence of the Audit Committees' 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 for Clients (KCfc)



Real-time collaboration and transparency

We leveraged **KCfc** to facilitate real-time collaboration with management and provide visual insights into the status of the audit!

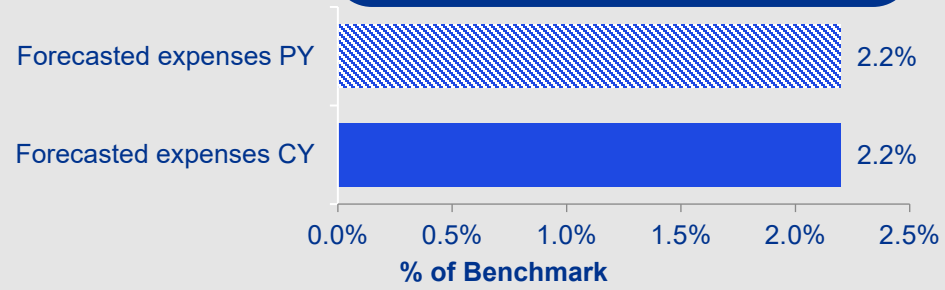
On our audit we used KCfc to coordinate requests from management.

Learn more

Initial materiality

Forecasted expenses
$1.9 billion
(2022: $1.8 billion)

Materiality
$41.5 million
(2022: $40.5 million)



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.

Plan and perform the audit

We ***initially determine materiality*** to provide a basis for:

- Determining the nature, timing and extent of risk assessment procedures;
- Identifying and assessing the risks of material misstatement; and
- Determining the nature, timing, and extent of further audit procedures.

We design our procedures to detect misstatements at a level less than materiality in individual accounts and disclosures, to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Evaluate the effect of misstatements

We also ***use materiality*** to evaluate the effect of:

- Identified misstatements on our audit; and
- Uncorrected misstatements, if any, on the financial statements and in forming our opinion.

Updates to our prior year audit plan

Other significant changes

Newly effective auditing standards

There are 3 new auditing standards effective for the year-end December 31, 2023 related to quality management. See Appendix 4 for more detail.

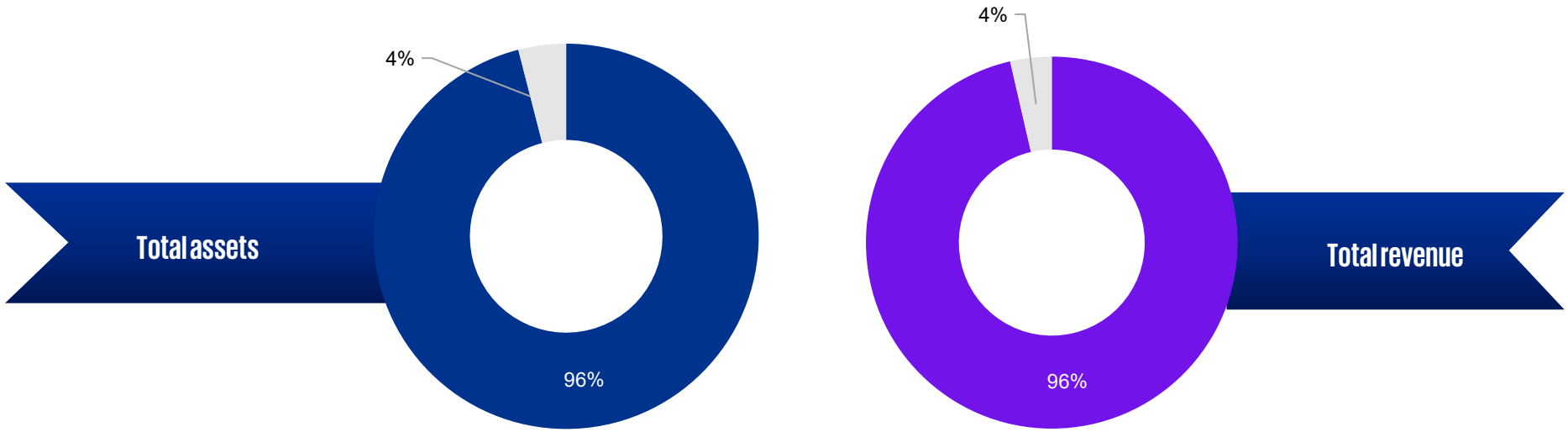
Newly effective accounting standards

PS 3280 – Asset Retirement Obligations

PS 3450 – Financial Instruments

Group audit - Scoping

Type of work performed	Total assets	Total revenue
Total full-scope audits, performed by group auditors	96%	96%
Government entities, audited separately	4%	4%
Total consolidated	**100%**	**100%**



Risk assessment summary

Our planning begins with an assessment of risks of material misstatement in your financial statements.

We draw upon our understanding of the City and its environment (e.g. the industry, the wider economic environment in which the business operates, etc.), our understanding of the City's components of its system of internal control, including our business process understanding.

	Area of significant risk or audit focus	Risk of fraud	Risk of error	Risk rating
●	Management Override of Controls	✓		Significant
●	Asset retirement obligation		✓	Elevated
●	Financial instruments		✓	Base
●	Revenue and accounts receivable		✓	Base
●	Tangible capital assets		✓	Base
●	Employee related expenses and benefit obligation		✓	Base
●	Litigations		✓	Base

● SIGNIFICANT RISK ● PRESUMED RISK OF MATERIAL MISSTATEMENT ● OTHER RISK OF MATERIAL MISTATEMENT



Significant risks and results

We highlight our significant findings in respect of **significant risk.**

Management override of controls (non-rebuttable significant risk of material misstatement)

RISK OF FRAUD

Presumption of the risk of fraud resulting from management override of controls

Why is it significant?

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.

Our planned response

As this presumed risk of material misstatement due to fraud is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include:

- testing of journal entries and other adjustments,
- performing a retrospective review of estimates;
- evaluating the business rationale of significant unusual transactions.

Advanced technologies

Our **KPMG Clara Journal Entry Analysis Tool** assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.

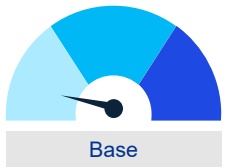
Click to learn more

Other risks of material misstatement

Areas	Level of risk due to error	Our response
Asset retirement obligations (ARO) – *new accounting standard*	 Elevated	• Obtained an understanding of management's detailed work plan and process for implementing PS 3280,including scoping, recognition and measurement. • Obtained evidence over completeness of the ARO analysis through management's reconciliation of tangible capital assets to the general ledger, review of completed checklists by department and discussion with management of any out-of-scope TCA determined to not have a legal obligation by the City. • Obtained management's calculation of the ARO, including accretion expense and the incremental amortization expense on the ARO asset, and tested for mathematical accuracy. • Selected a sample of the inputs used in the ARO calculation, including square footage of buildings with asbestos. • Assessed assumptions used in the calculation including: management analysis of the asbestos rate utilized in the measurement of the AR and discount / inflation rates. • Assessed management's expert used to determine the future landfill closure costs. • Assessed the application of the modified retroactive transitional provisions applied by management for the initial implementation of the accounting standard. • Assessed the financial statement presentation and note disclosures to ensure it is consistent with the guidance in PS 3280. • Discussed with management that the ARO liability will need to be monitored on an annual basis to keep track of any retirement of AROs or changes in rates used in the determination of the liability and make adjustments as necessary. • As the City has applied the modified retroactive provisions, this required the restatement of prior year comparative balances in the financial statements. As a result, our auditor's report includes an "emphasis of matter" section and "other matter" section noting the change in the comparative balances and our audit of the restatement.

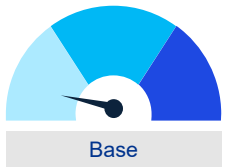
As a result of the above procedures, no matters were found of significance to report.

Other risks of material misstatement

Areas	Level of risk due to error	Our response
Financial instruments – *new accounting standard*	 Base	• Obtained management's documentation of the process applied to analyze the appropriate recognition, measurement, presentation and disclosure of financial instruments. • Assessed the significant account policies applied to financial instruments to assess if they comply with the new accounting standard. • We reviewed the financial statement presentation and note disclosures to ensure that it is consistent with the new accounting standard.

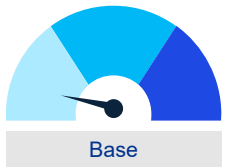
As a result of the above procedures, no matters were found of significance to report.

Other risks of material misstatement

Areas	Level of risk due to error	Our response
Revenue and account receivable	 Base	• 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 cash receipts. • Assessed deferred revenue relating to certain government agreements with stipulations/ eligibility criteria, including inspection of invoices of the project to assess if criteria met. • 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 and tested a sample of property tax balances receivable. • 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.

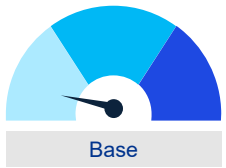
As a result of the above procedures, no matters were found of significance to report.

Other risks of material misstatement

Areas	Level of risk due to error	Our response
Tangible capital assets (TCA)		• Updated our understanding of the process activities and controls over TCA, including timing of recognition, movement from assets under construction to the relevant tangible capital assets category, and recognition timing for contributed assets. • Obtained and reviewed a sample of invoices for significant capital projects supporting the capital asset additions and assessed proper cut-off of all the capital projects in progress. • Assessed the reasonableness of the amortization period (useful lives) of tangible capital assets and recalculated amortization expense for a sample of assets. • Obtained and assessed reasonableness of contributed assets, 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

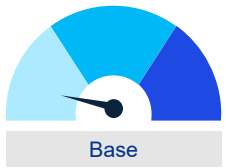
As a result of the above procedures, no matters were found of significance to report.

Other risks of material misstatement

Areas	Level of risk due to error	Our response
Employee related expenses/ accruals and employee benefit obligations	 Base	*Employee related expenses/ accruals* • Updated our understanding of process activities in relation to initiation, authorization, recording and processing of employee related expenses and accruals. • Selected relevant controls performed by the Corporate Payroll department, involving 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 employee related accruals including vacation accrual and workers' compensation. *Employee benefit obligations* • 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

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

Other risks of material misstatement

Areas	Level of risk due to error	Our response
Litigations	 Base	• Obtained the 2023 Year-End Claims Report prepared by Legal Services detailing all claims with the City with a potential exposure of over $250,000 as at December 31, 2023. • Obtained analysis prepared by Corporate Finance assessing if provision or disclosure is required in accordance with Canadian public sector accounting standards. • Obtained confirmation of the details of significant claims directly from both Legal Service and external legal firms used on several potential legal exposures. • Assessed the adequacy of management's analysis, resulting legal claims provision and financial statement disclosure for the contingent liabilities relating to legal obligations.

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

Corrected misstatements

Corrected misstatements include financial presentation and disclosure misstatements.



Impact of corrected misstatements

- Discuss the effect on the financial reporting process
  - Discussion about the cause of the corrected misstatements (e.g. control deficiencies).
  - Discussion about that the matters underlying the corrected misstatements (e.g. control deficiencies) could potentially cause future-period financial statements to be materially misstated.

Control deficiencies

Consideration of internal control over financial reporting (ICFR)

In planning and performing our audit, we considered ICFR relevant to the Program'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 deficiency, or a combination of deficiencies, in internal control over financial reporting that, in our judgment, is important enough to merit the attention of those charged with governance.

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Other financial reporting matters

We also highlight the following:

Financial statement presentation - form, arrangement, and content

No matters to report

Concerns regarding application of new accounting pronouncements

See page 11 for more details on the new Asset retirement obligation standard and page 12 for the new Financial instrument standard.

Significant qualitative aspects of financial statement presentation and disclosure

No matters to report

Appendices

1. Required communications
2. Auditor's report
3. Management representation letter
4. Use of technology
5. Audit quality
6. New auditing standards
7. New accounting standards
8. Thought leadership
9. Continuous evolution



Appendix 1: Other required communications



Inquiries regarding risk assessment, including fraud risks

- What are the Audit Committee's views about fraud risks, including management override of controls, in the City? And have you taken any actions to respond to any identified fraud risks?
- Is the Audit Committee aware of, or has the Audit Committee 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?
- How does the Audit Committee exercise oversight of the City's fraud risks and the establishment of controls to address fraud risks?
- Is the Audit Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations?



Inquiries regarding the City processes

- Is the Audit Committee aware of tips or complaints regarding the City's financial reporting (including those received through the Audit Committee's internal whistleblower program, if such programs exist)? If so, what were the Audit Committee's responses to such tips and complaints?



Inquires regarding related parties and significant unusual transactions

- Is the Audit Committee aware of any instances where the City entered into any significant unusual transactions?
- What is the Audit Committee's understanding of the City's relationships and transactions with related parties that are significant to the City?
- Is the Audit Committee concerned about those relationships or transactions with related parties? If so, the substance of those concerns?

Appendix 2: Draft auditor's report

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Members of City Council of The City of Winnipeg

Opinion

We have audited the consolidated financial statements of The City of Winnipeg (the "Entity"), which comprise the consolidated statement of financial position as at December 31, 2023, the consolidated statements of operations and accumulated surplus, changes in net financial liabilities and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2023, and its consolidated results of operations, its consolidated changes in net financial liabilities and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Comparative Information

We draw attention to note 2c in the financial statements which explains that certain comparative information presented for the year ended December 31, 2022 has been restated.

Note 2c explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

Other Matter – Comparative Information

As part of our audit of the financial statements for the year ended December 31, 2023, we also audited the adjustments that were applied to restate certain comparative information presented for the year ended December 31, 2022. In our opinion such adjustments are appropriate and have been properly applied.

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Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity‘s financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern.

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If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Chartered Professional Accountants

Winnipeg, Canada

May 22, 2024

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Appendix 3: Management representation letter

Winnipeg | Corporate Finance
Finances générales

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

May 22, 2024

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, 2023. 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) We have no knowledge of material unrecorded assets or liabilities or contingent assets or liabilities that have not been disclosed to you.

11) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, etc.).

12) We have no knowledge of arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements not disclosed to you.

13) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.

14) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

15) We have no knowledge of losses to be sustained as a result of purchase commitments for inventory or other assets at quantities in excess of normal requirements or at prices in excess of prevailing market prices.

Asset retirement obligations:

16) All legal obligations associated with retirement of tangible capital assets have been recognized, including those under the doctrine of promissory estoppel.

17) The obligations were recognized when incurred using management's beset estimate of fair value.

Financial instruments and guarantees:

18) Guarantees, whether written or oral, under which the City is contingently liable, including guarantee contracts and indemnification agreements, have been recorded in accordance with the relevant financial reporting framework.

19) Off-balance sheet activities, including accounting policies related to non-consolidation of certain entities and revenue recognition, have been recorded and disclosed in the financial statements. Specifically, for those off-balance sheet activities in which the City is a transferor of financial assets, the off-balance sheet vehicle is either a qualifying special purpose entity as defined in the relevant financial reporting framework, or the City is not the primary beneficiary pursuant to the relevant financial reporting framework. For those off-balance sheet activities in which the City is a sponsor, administrator or lessee, the off-balance sheet vehicle is not controlled by the City for accounting purposes because the City is not the primary beneficiary pursuant to the relevant financial reporting framework.

20) The following information about financial instruments has been properly disclosed in the financial statements:

    a) the exposures to risk and how they arise (for each significant risk arising from financial instruments including derivatives);

    b) any change in risk exposures from the previous period (for each significant risk arising from financial instruments including derivatives);

    c) concentrations of risk (for each type of risk arising from financial instruments);

    d) extent, nature, and terms of financial instruments (including free-standing derivatives), both recognized and unrecognized.

Going concern:

21) 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:

22) 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:

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

24) 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:

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

Provisions:

26) 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:

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

Contractual agreements:

28) 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:

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

Non-financial assets:

30) 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:

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

32) 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.

33) 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.

34) 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.

35) 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.

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

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

38) 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.

39) 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.

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

Management's use of specialists:

41) We agree with the findings of Eckler Consultants & Actuaries as management's expert in preparing the valuations of the City's employee benefit obligations (ie. pension plans, retirement allowances and compensated absences). We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

Segment disclosures:

42) 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.

43) 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.

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

Other:

45) 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.

46) 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.

47) 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:

48) 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).

49) We also confirm that the financial statements of the City will not be included in the group financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Misstatements:

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

Yours very truly,

_____
Ms. Catherine Kloepfer, Chief Financial Officer

_____
Mr. John Speidel, Corporate Controller

_____
Ms. Helen Hasiuk, Manager of Financial Reporting & 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 – Misstatements

The City of Winnipeg

For Year Ended December 31, 2023

Summary of Corrected Audit Misstatements

	Effect if recorded on: Increase (decrease)			
	Assets	Liabilities	Accumulated Surplus	Annual Surplus
Correcting entry required at current period end:				
Revenue	-	-	-	(2,635,241)
Accounts receivable	(2,635,241)	-	-	-
To record adjustment to customer receivables for water services due to over billings in 2023 as a result of incorrect meter reading provided by customer.				
Total corrected audit misstatements	(2,635,241)	-	-	(2,635,241)

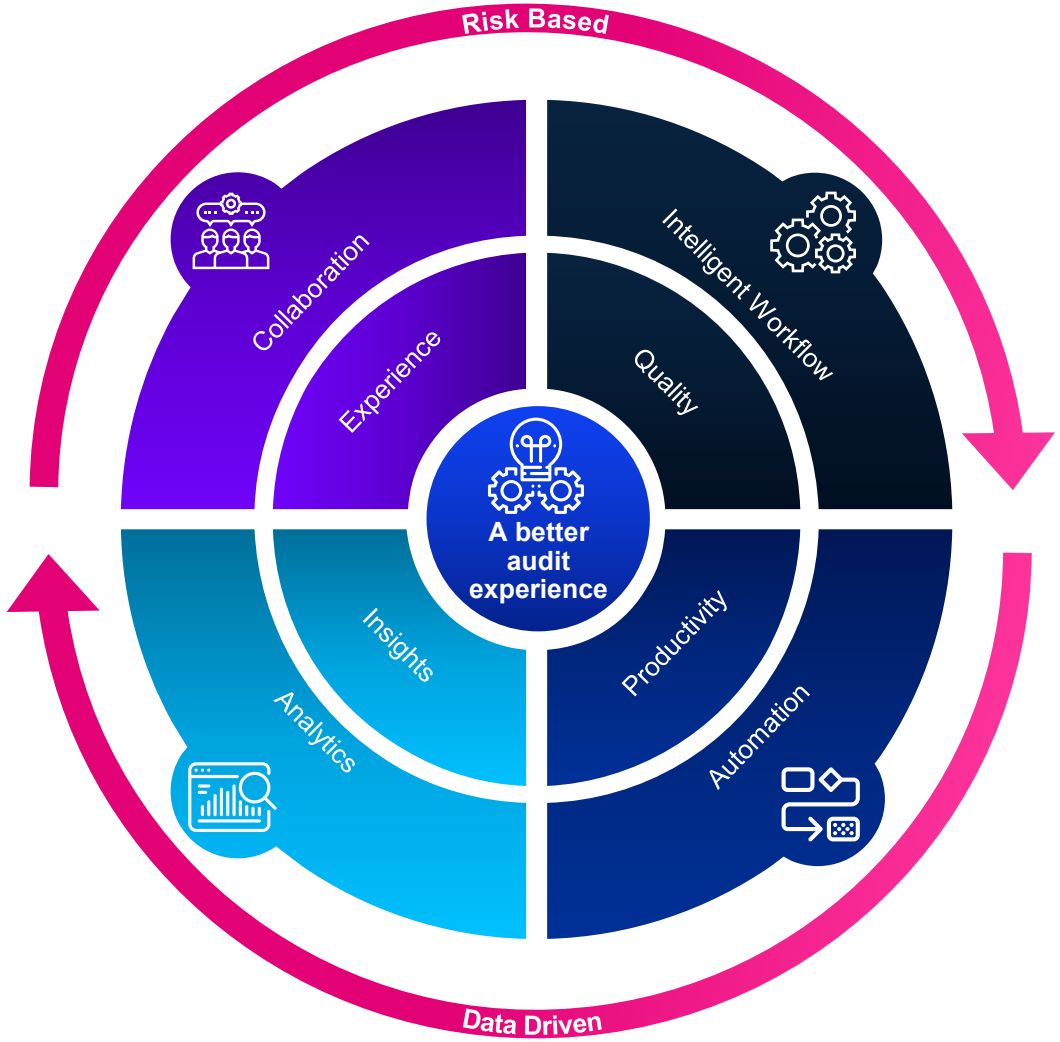
Appendix 4: KPMG Clara

Streamlined client experience
And deeper insights into your business, translating to a better audit experience.

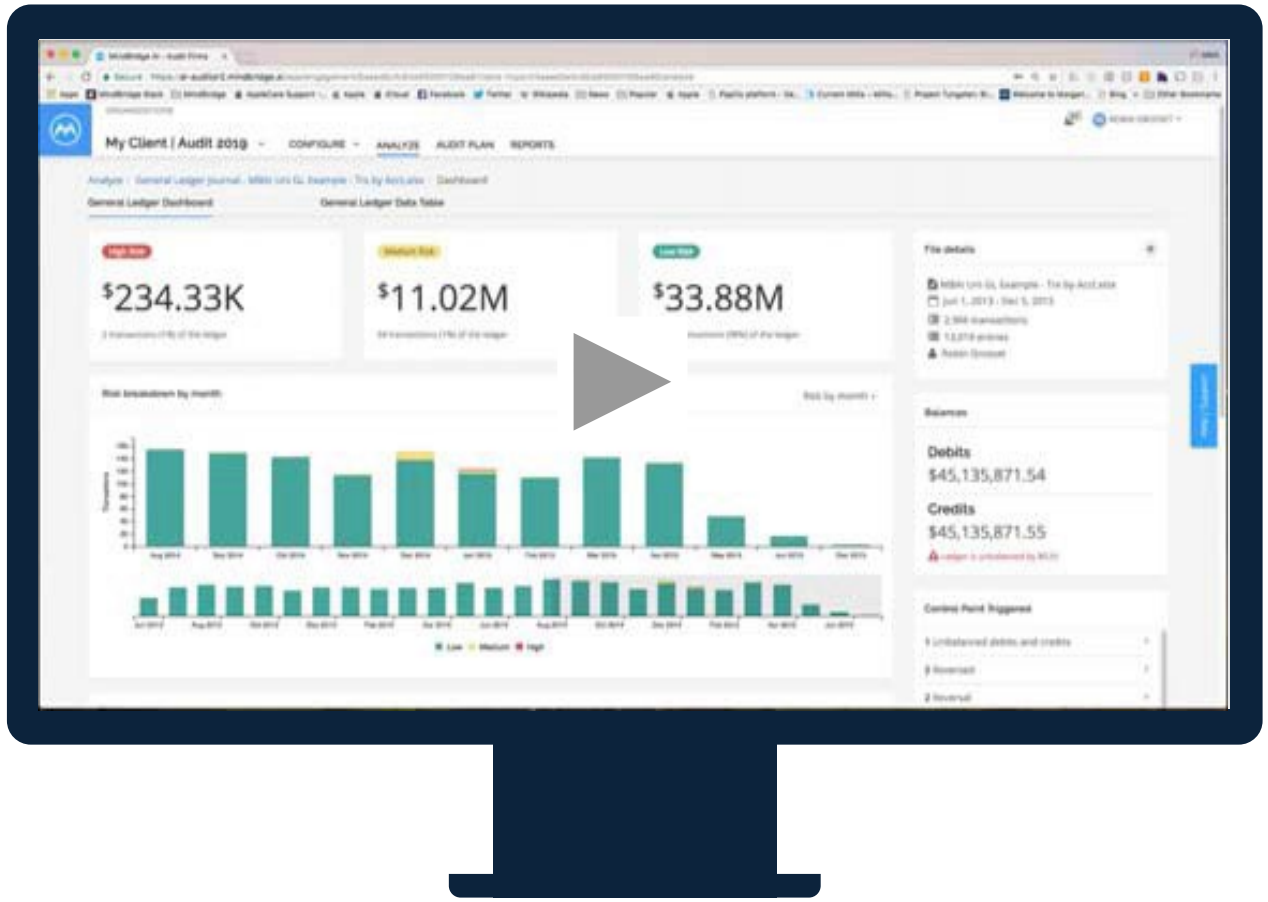
Secure
A secure client portal provides centralized, efficient coordination with your audit team.

Intelligent workflow
An intelligent workflow guides audit teams through the audit.

Increased precision
Advanced data analytics and automation facilitate a risk-based audit approach, increasing precision and reducing your burden.



Appendix 4: KPMG Clara AI Transaction Scoring



Description

KPMG Clara AI Transaction Scoring is a tool that applies advanced statistical, machine-learning, and rules-based analytics technology to analyze transactions on a more granular level and deliver an even higher audit quality. Transaction scoring simultaneously tests each transaction through a mix of control points, machine learning algorithms, and statistical scenarios to assign a risk score and bucket your entire population. This allows our team to focus primarily on transactions with the highest risk, while giving you positive assurance over the remaining population.

100% testing of transactions

Performs risk assessment and substantive testing procedures simultaneously over 100% of the transactions that are in scope for audit procedures.

Enhanced testing approach

Reduces the need for additional corroborating evidence on lower risk items and enables more meaningful discussions with management.

Increased audit quality

Drives audit quality by directing our focus to higher risk areas and meaningful outliers.

Anomaly detection

Finding the needle in the haystack has never been more easy, by using machine learning algorithms to detect transactions which don't follow the norm.

Appendix 5: Audit quality: How do we deliver audit quality?

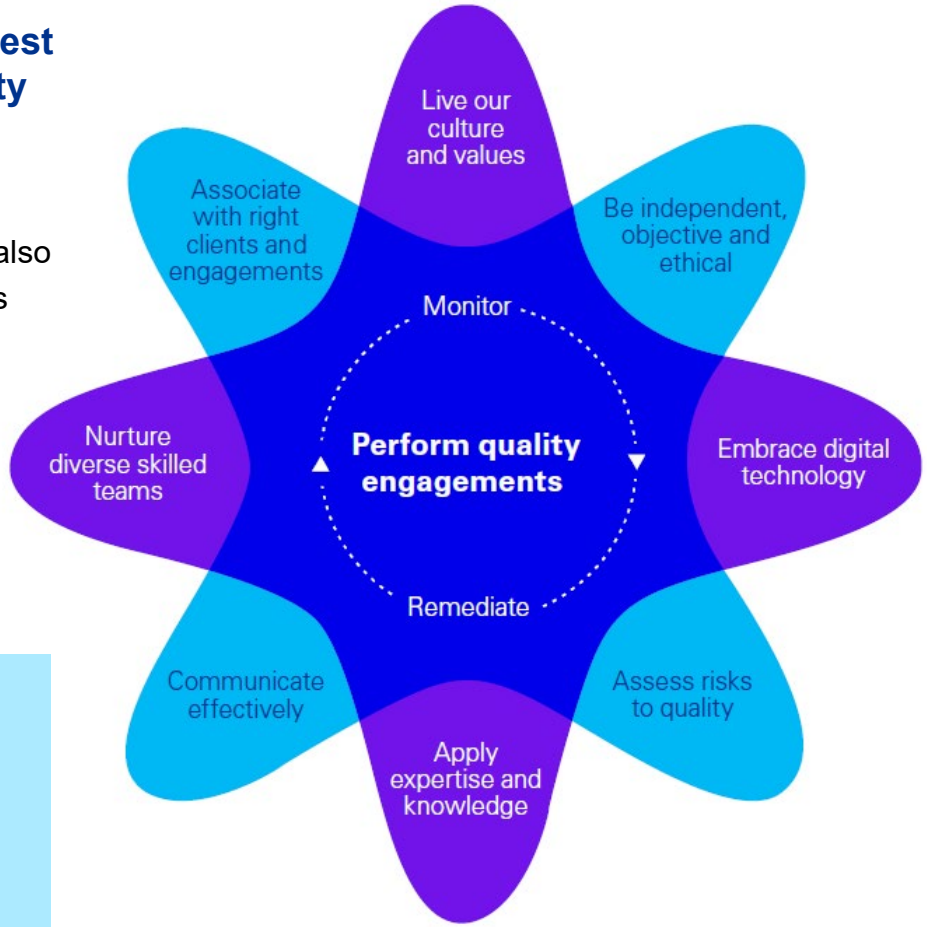
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

The drivers outlined in the framework are the ten components of the KPMG System of Quality Management (SoQM). Aligned with ISQM 1/CSQM 1, our SoQM components also meet the requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA) and the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting in Canada, which apply to professional services firms that perform audits of financial statements.

KPMG 2023 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 management;** and
- all of our related activities are undertaken in an environment of the utmost level of **objectivity, independence, ethics** and **integrity.**



Doing the right thing. Always.

Appendix 5: 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.

Shannon Magnusson belongs to a National Municipality Audit Group that meets monthly to discuss issues impacting municipalities and share insights regarding new accounting standards.

Quality reviews

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

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 KPMG team for the transition to the new Asset Retirement Obligation standard.
- IT specialists assist in our understanding of the City's IT environment.

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

Appendix 6 : New Auditing Standards

Changes in auditing standards

Effective for periods beginning on or after December 15, 2022

ISA/CAS 220

(Revised) Quality management for an audit of financial statements

ISQM1/CSQM1

Quality management for firms that perform audits or reviews of financial statements or other assurance or related services engagements

ISQM2/CSQM2

Engagement quality reviews

Effective for periods beginning on or after December 15, 2023

ISA 600/CAS 600

Revised special considerations – Audits of group financial statements

Refer to the next page for more information about CAS 600.

Appendix 6 : New Auditing Standards

Changes in auditing standards (continued)

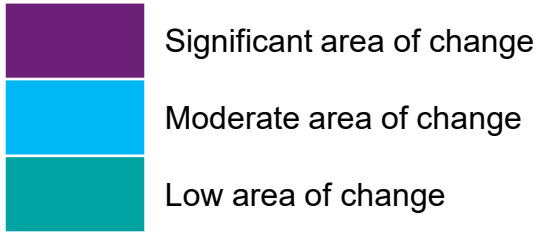
CAS 600 *Special Considerations – Audits of Group Financial Statements (including the work of component auditors)* ("CAS 600") is an auditing standard that is currently applied by KPMG for the audit of the University's financial statements. Effective for the City's 2025 fiscal year, CAS 600 has been revised to include new and enhanced requirements that KPMG will be required to implement in the audit. A summary of the key changes in CAS 600 is as follows:

Click here for information about the revised CAS 600 from CPA Canada



Key changes include:

- Risk-based approach to group audit scoping.
- Increased direction and supervision of component auditors.
- Increased two-way communication through the audit.



Appendix 7: Newly effective and upcoming changes to 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 excludes areas where there is already specific guidance (e.g., government transfers, restructuring transactions, restricted assets and revenues, financial instruments, contractual rights, etc.).
	• 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.
	• Key potential impacts:
	  ○ Revenue recognition may be accelerated or deferred.
	  ○ Revenue may be recognized at a point in time or over time.
	  ○ New estimates and judgments may be required.
	• Discussions to be held with management to assess all revenue streams of the Entity to identify any revenue streams impacted by the new standard.

Appendix 7: Newly effective and upcoming changes to accounting standards (continued)

Standard	Summary and implications
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 7: Newly effective and upcoming changes to 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	• PSAB has approved Section PS 1202 *Financial statement presentation*, and a series of consequential amendments to various standards in the PSA Handbook. The approved section includes the following:
	  • The statement of financial position was restructured and now includes two categories of liabilities and a third component of net assets or net liabilities.
	  • The net financial assets or net financial liabilities indicator (formerly known as net debt) has been relocated to its own statement, the statement of net financial assets or net financial liabilities. Its calculation has been refined.
	  • The statement of change in net debt has been removed. However, an entity has the option to present the change in the indicator on the statement of net financial assets or net financial liabilities.
	  • The statement of changes in net assets or net liabilities was added:
	  ○ This statement shows a reconciliation of each component of net assets or net liabilities.
	  ○ All revenues and expenses arising in the period are captured in the statement of changes in net assets or net liabilities. The statement's purpose is to be transparent with respect to those revenues and expenses recognized in surplus or deficit of the period and those recognized directly in net assets or net liabilities. The information presented on the statement of remeasurement gains and losses will now be presented on this statement.
	  • The statement of cash flow was amended to isolate financing activities to present whether all of an entity's other activities combined results in the need for cash to be raised through financing activities.
	  • Amended budgets may be presented but only in limited circumstances.
	• 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. Prior period amounts will need to be restated to conform to the presentation requirements for comparative financial information in Section PS 1202.

Appendix 7: Newly effective and upcoming changes to accounting standards (continued)

Standard	Summary and implications
Employee benefits	• The Public Sector Accounting Board has initiated a review of sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. • The intention is 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, the new standards will be implemented in a multi-release strategy. The first standard will provide foundational guidance. Subsequent standards will provide additional guidance on current and emerging issues. • The proposed section PS 3251 *Employee benefits* will replace the current sections PS 3250 *Retirement benefits* and PS 3255 *Post-employment benefits, compensated absences and termination benefits*. It will apply to fiscal years beginning on or after April 1, 2026. Early adoption will be permitted and guidance applied retroactively. • This proposed section would result in public sector entities 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. • The Public Sector Accounting Board is currently deliberating feedback received on the Employee Benefits exposure draft.

Appendix 8: Thought leadership and insights

Environmental, social and governance ("ESG")

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 Association'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 8: Thought leadership and insights (continued)

General

Global Economic Outlook

We may be only part-way through 2023, but the phrase that has overwhelmingly dominated conversations – from board rooms to political chambers and Main Streets – has been the cost-of-living crisis. In recent years, the world has faced waves of challenges, from the pandemic to the invasion of Ukraine, to the unfolding bank liquidity challenges amidst skittish depositors. The impact of such a lengthy period of uncertainty is being felt by everyone and that's reflected in KPMG's latest Global Economic Outlook.

Click here to access KPMG's portal.

2023 CEO Outlook

While CEOs maintain confidence in the future of the global economy, their views on what constitutes a risk to their business have shifted significantly. The persistent flux in global politics, trade dynamics and international relations has required a new level of resilience from CEOs. They are reassessing their strategic priorities, focusing on the rise of generative AI, talent management and high stakeholder expectations in addressing environmental, social and government (ESG) issues.

Click here to access KPMG's portal.

Board Leadership Centre

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.

Click here to access KPMG's portal.

Momentum

Offering curated insights for management, boards and audit committees, our quarterly newsletter provides the latest thought leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

Click here to access KPMG's portal.

Accelerate

Our annual article series, developed by KPMG subject matter experts, which tackles the most pressing risks and opportunities that face audit committees, boards and management teams across the country. The focus areas for 2024 include economic uncertainty, cyber risk, digital transformation, talent retention and mandatory ESG reporting.

Click here to access KPMG's portal.

Appendix 8: Thought leadership and insights (continued)

Information technology and digital transformation

Digital Transformation and Technology

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.

Click here to access KPMG's portal.

Five Questions Boards Should Ask About Digital Transformation Projects

Boards and management committees alike have increasingly expressed interest in technology investments that improve operations, enable customer relationships, and support virtual workforces. Based on our experience working with organizations across many industries, five questions have been identified to help a Board understand and 'sponsor' a project successfully.

Click here to access KPMG's portal.

KPMG Global Tech Report 2023

Be determined, not deterred. Despite the headwinds of global economic uncertainty, digital transformation leaders that are committed to their innovation priorities continue to realize value at pace. In our latest survey – the KPMG global tech report 2023 – digital leaders are bullish in their belief that embracing technology across all facets of their business is bringing productivity gains.

Click here to access KPMG's portal.

Maintaining Cyber Vigilance and Staying Resilient

Cyber resilience is vital to maintain business operational capabilities, safeguard customer trust, and reduce the impact of future attacks. Regulators worldwide are also increasingly focused on cyber resilience, obligating organizations to be more transparent about their ability to respond to breaches before, during and after an incident. KPMG's eBook shares hard-won lessons which are intended to help organizations confidently and proactively address cyber threats, recover from cyber incidents and emerge stronger.

Click here to access KPMG's portal.

Asset management

Asset Management in the Age of Uncertainty

Most asset managers seem to recognize that their business is in the midst of a significant disruption. The fundamentals of the asset management industry are changing and there is need for new ideas and new models.

Click here to access KPMG's portal.

Converging Trends 2033: The Long View

We asked KPMG's global infrastructure leaders to use their experience and insight to put themselves in the year 2033. We had them tell us what they saw, pick some winners and losers, and provide insights and ideas to help readers in the mid-2020s prepare for the world of 2033. To make this report practical, we focused on three key yet interdependent themes – cities, sustainable development and innovation.

Click here to access KPMG's portal.

Appendix 9: Continuous evolution

Our investment: $5B

We are in the midst of a five-year investment to develop our people, digital capabilities, and advanced technology.

Responsive delivery model

Tailored to you to drive impactful outcomes around the quality and effectiveness of our audits.

Result: A better experience

Enhanced quality, reduced disruption, increased focus on areas of higher risk, and deeper insights into your business.



https://kpmg.com/ca/en/home.html

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