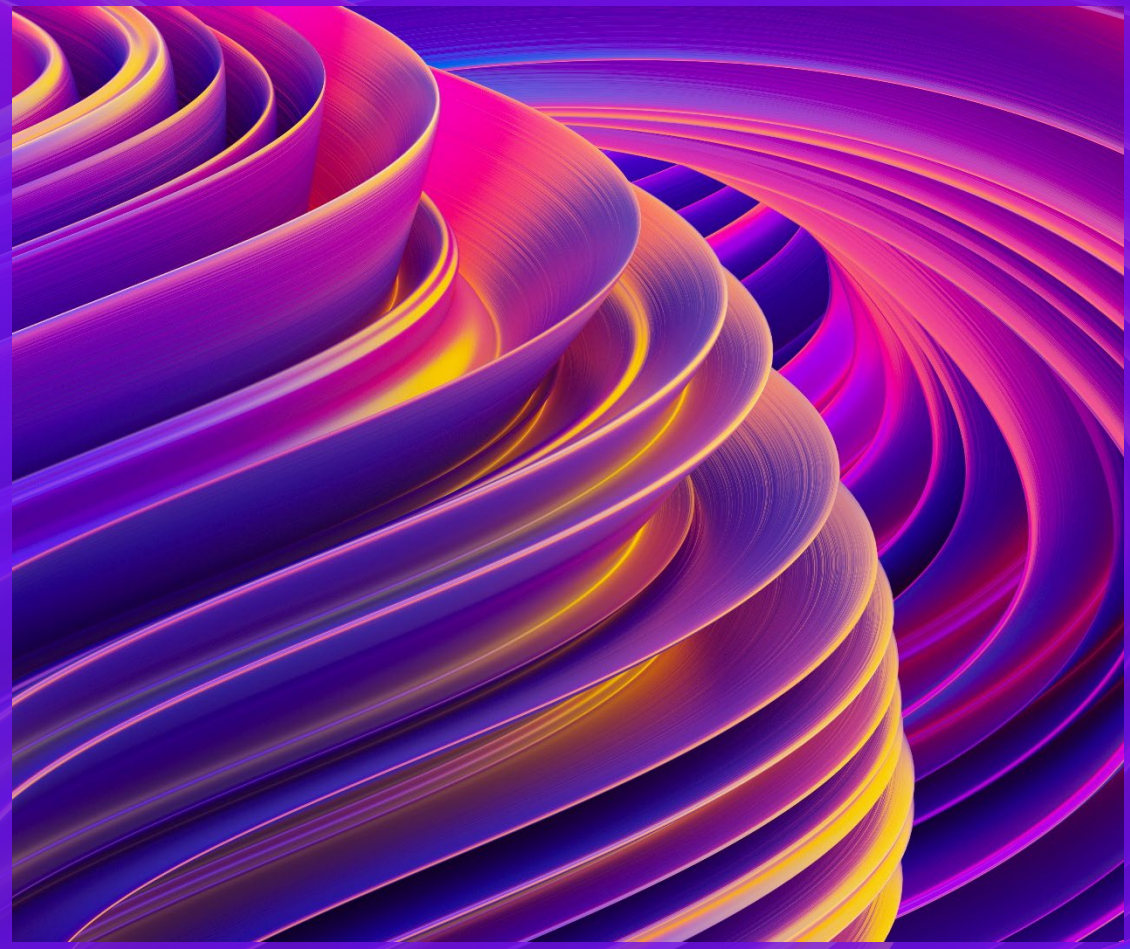
KPMG

City of Winnipeg Councillors' Ward Allowance Fund Policy Report



Audit Findings Report for the year ended December 31, 2023

KPMG LLP

Prepared as of June 5, 2024

kpmg.ca/audit

KPMG contacts

Key contacts in connection with this engagement



Shannon Magnusson, CPA, CA
Lead Audit Engagement Partner
(204) 957-2283
smagnusson@kpmg.com



Mostapha Osman, CPA, CA, CIA
Senior Manager, Advisory
(204) 957-2243
mostaphaosman@kpmg.ca



Table of contents

4 **Highlights**

6 **Status**

7 **Risks and results**

9 **Observations and recommendation**

11 **Control deficiencies**

12 **Policies and practices**

13 **Appendices**

The purpose of this Audit Findings Report is to assist you, as a member of the Governance Committee of Council, in your review of the results of our compliance audits of the Councillors' Ward Allowance (CWA) and Chairperson Expenditures Reports for five Councillors selected randomly by management of The City of Winnipeg (the City) as at and for the year ended December 31, 2023.
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

Overview of the Councillors' Ward Allowance Fund Policy

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

Chairperson funds are received by elected officials in recognition of extra duties and expenses incurred by virtue of acting as a chairperson of a committee, or other additional Council roles.

Both the expenditures incurred in the CWA Fund and the Chairperson Fund are required to follow the provisions of the *Councillors' Ward Allowance Fund Policy*. The current policy was updated by the City Clerk and then approved by the Governance Committee of Council during the regular meeting dated March 9, 2023.

The adopted budgets for the Councillors' Ward Allowance Fund in 2023 amounted to an allocated budget of $136,649 (2022: $84,924) per ward and either $19,770 or $4,000 or $2,970 for other Chairperson roles, depending on the Committee role.

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

Roles and responsibilities

The Policy establishes key controls over administration of the CWA Fund expenditures. The Policy also prescribes the roles and responsibilities of Councillors, the City Clerk's Department, the Corporate Finance Department, and the Governance Committee of Council, in relation to the CWA Funds. The provisions of the Policy also apply to additional funds provided to chairpersons of committees of Council and for other Council roles.

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

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

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

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

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

Audit highlights

No matters to report

Matters to report – see link for details

Status

We have completed the compliance audits of the Councillors' Ward Allowance (CWA) and Chairperson Expenditures Reports for five Councillors selected randomly by management of The City of Winnipeg (the "City") for the year ended December 31, 2023.

Materiality

Materiality per Councillor - $1,182

Policies and practices & Specific topics

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

Control deficiencies

- Significant deficiencies

Risks and results

- Other risks of material misstatement
  - Unexpended funds carried over to 2024
  - Expense not recorded in the correct accounting period
  - Donation receipts issued in the Councillor's name
  - Ineligible expenses treated (i.e., booked / recorded) as eligible expenses
  - Salaries of Councillor's assistants

Uncorrected misstatements

- Uncorrected misstatements

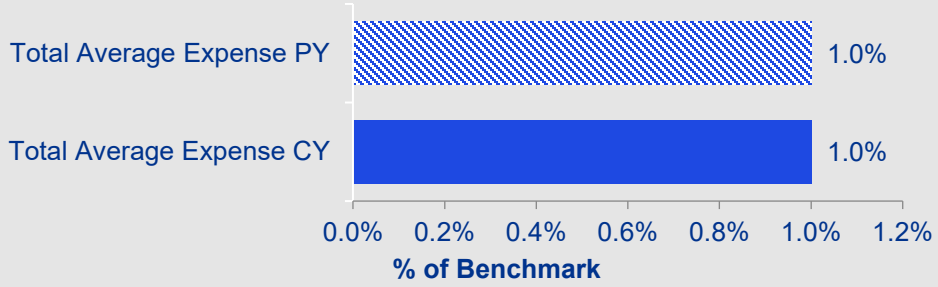
Corrected misstatements

- Corrected misstatements

Initial materiality

Average annual expense per Councillor
$118,242
(2022: $88,330)

Materiality
$1,182
(2022: $883)



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 information and in forming our opinion.

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 Policy, the CWA Fund and its reporting environment, including our understanding of the CWA Fund's system of internal control.

		Risk of error/ risk of non-compliance	Risk rating
•	Unexpended funds carried over to 2024	✓	Base
•	Expense not recorded in the correct accounting period	✓	Base
•	Donation receipts issued in the Councillor's name	✓	Base
•	Ineligible expenses treated (i.e., booked / recorded) as eligible expenses	✓	Base
•	Salaries of Councillor's assistants	✓	Base

KPMG selected samples for testing to cover all categories noted above where a risk of error or/ and a risk of non-compliance with the Policy exists. For the salaries of Councillor's assistants, KPMG performed testing over 100% of the expenditures in 2023.

Based on the audit work performed, no discrepancies were found and we found no instances of non-compliance with the CWA Fund Policy.



Observations and recommendation

Observations and recommendations – Current year

1. Unexpended Funds Carried Over to 2024

Background

The Policy has a clause relating to unexpended funds as follows: Unexpended funds from the Councillor Ward Allowances may be carried over to the following year, at the discretion of the Ward Councillor, up to a maximum of 10% of the total ward allocation.

During our 2023 audit it was noted that the CWA Fund policy was updated on March 23, 2023 and the annual funding for the CWA should be allocated to three categories:

- Category one – Staffing – 56% of the annual CWA fund
- Category two – General Expense – 26% of the annual CWA fund
- Category three – Ward Office / Meeting Space – 18% of the annual CWA fund

The policy did not clearly specify that the carry over of the unexpended funds should be calculated based on the above three categories.

It was noted that the unexpended funds were calculated at 10% of the total budget for the period from January 1, 2023 to March 31, 2023 and for the unexpended funds accumulated for the period from April 1, 2023 to December 31, 2023 the 10% maximum carry-over was allocated based on the percentages noted in the above three categories per the amendment.

Cause & Effect

The Policy is not clear in regards to how to calculate the unexpended funds subsequent to the March 23, 2023 amendments, which may result in overstatement or understatement of the unexpended funds to be carried over to future years.

RECOMMENDATION

We recommend that the City Clerk & the Corporate Finance Department review the Policy and update the carry over calculation related section in order to ensure that the Policy is clear and not subject to interpretation.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's and Corporate Finance Departments agree with the recommendation and will submit to the Governance Committee of Council, an amendment to Councillors' Ward Allowance Fund Policy, to clarify the allocation process for the 10% carry over of unexpected funds.

Observations and recommendation

Observations and recommendations – Prior year update

1. Expenses Not Recorded in the Correct Accounting Period

Criteria

As per The Councillors' Ward Allowance (CWA) Fund policy section Four: "Expenses must be charged to the year in which they occurred. Expenses cannot be carried forward to different years".

Prior year observation

During our 2022 audit of one ward, we noted an expense recorded in the incorrect accounting period, with an expenditure incurred in 2021 recorded improperly in 2022. The following table summarize the observation noted:

Invoice Date	Recording Date	Expense Description	Comment
September 12, 2021	January 5, 2022	Tee Sign on Golf Course	Expense is related to the financial year ending December 31, 2021 and it was recorded in the financial year ending December 31, 2022.

Observations over expenditures recorded in the incorrect period have been found in previous audits.

Cause & Effect

We understand that the Corporate Finance Department has policies and procedures in place to follow up with the Councillor's Liaison Coordinator to obtain all invoices for the year. However, there is a risk that expenses might not be recorded in the correct accounting period due to the invoice not being received or submitted by the year-end cut-off date.
The recording of expenses in the incorrect period may result in overstatement or understatement of expenditures and the calculation of the unexpended funds to be carried over to future years to be inaccurate.

RECOMMENDATION

Consistent with prior years, we recommend that the City Clerk & the Corporate Finance Department review the completeness of year-end accruals, in an attempt to ensure the reports reflect all expenditures for the year. In situations where an invoice has not been received before the year-end accounting is closed, an estimated accrual should be recorded.

MANAGEMENT RESPONSE – CITY CLERK'S DEPARTMENT

The City Clerk's and Corporate Finance Departments agree with the recommendation. The Departments have previously taken steps to mitigate the frequency of these types of accounting issues, which have resulted in the reduction of their occurrence. The Departments will continue to conduct additional reviews to ensure completeness and accuracy for the reporting period.

2023 update

Based on our inquiry and cut-off testing conducted for the year ended December 31, 2023, the sample of expenses selected were recorded in the correct reporting period.

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.

Appendices

1 Audit quality

2 Audit and assurance insights



Appendix 1: Audit quality - How do we deliver audit quality?

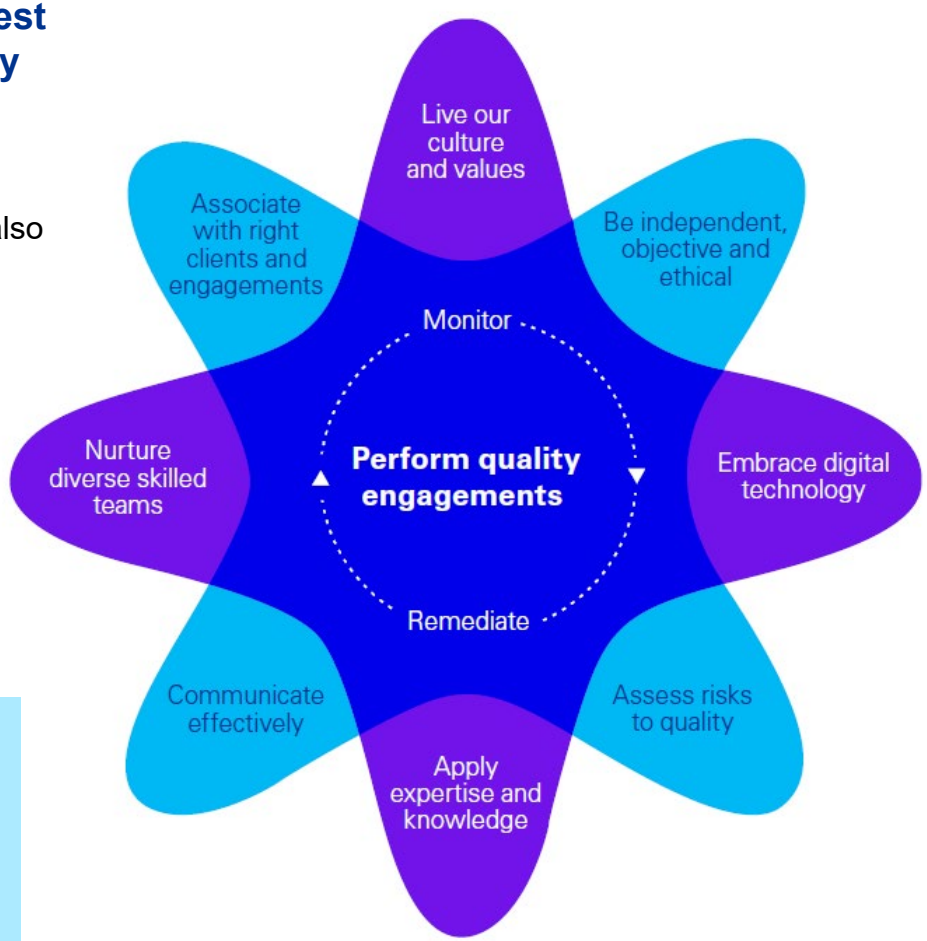
Quality essentially means doing the right thing and remains our highest priority. Our Global Quality Framework outlines how we deliver quality and how every partner and staff member contributes to its delivery.

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 consolidated 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 1: Audit quality - Indicators (AQIs)

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

Team composition

Experience of the team

The Partner involved has 10+ years of experience with the City of Winnipeg and 7 years or involvement with the CWA Expenditures Report audits.

The Senior Manager has been involved in these audits for the last 7 years.

Technology in the audit

Implementation of Technology in the Audit

Utilized a KPMG shared site to provide management with a secure site in which to provide KPMG with the information required for the audit and reduced the need for sending information by e-mail and eliminated the use of a USB stick.

KPMG utilized pivot tables and Vlookup in Microsoft Excel to prepare the CWA Fund Expenditures report.

Timing of prepared by client (PBC) items

Timeliness of PBC items

The Corporate Finance department had all required information prepared for the commencement of our audit work – the information we received was complete and we received full cooperation from management.

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

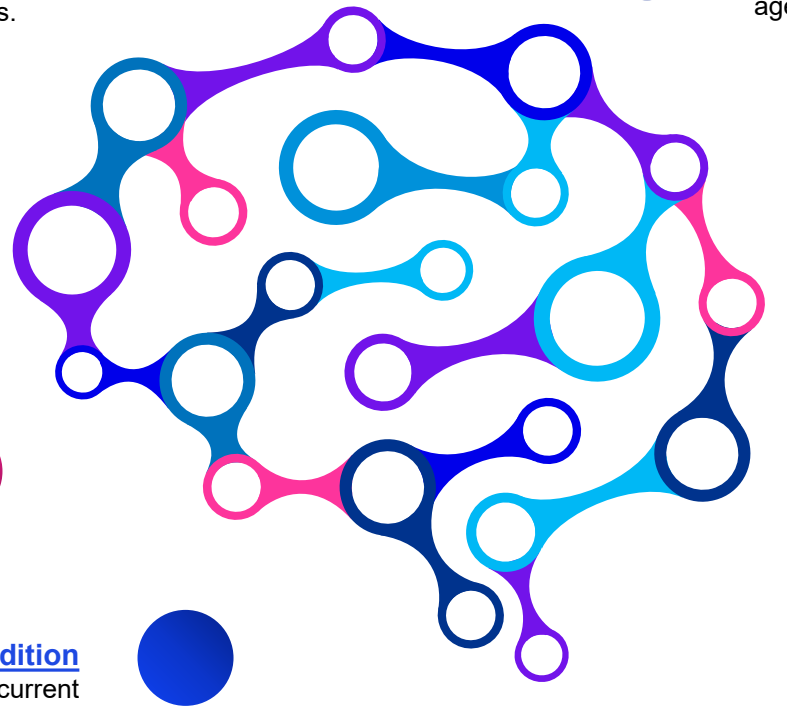
Appendix 2: Audit and assurance insights

KPMG Audit & Assurance Insights
Curated research and insights for audit committees and boards.

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

Current Developments
Series of quarterly publications for Canadian businesses including Spotlight on IFRS, Canadian Securities & Auditing Matters and US Outlook reports.

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



Accelerate 2023
The key issues driving the audit committee agenda in 2023.

Momentum
A quarterly newsletter with the latest thought-leadership from KPMG's subject matter leaders across Canada and valuable audit resources for clients.

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

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

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