

**City of Brandon
Report to Council**

For the Year Ending December 31, 2018
For presentation at the Council meeting June 27, 2019

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June 27, 2019

Members of Council
City of Brandon

Dear Sirs/Mesdames:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of City of Brandon (the "City") as at December 31, 2018 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of Council.

THE AUDIT

Our responsibility, as auditor of the City, is to report to the members on the fair presentation of the December 31, 2018 consolidated financial statements, in accordance with Canadian public sector accounting standards. To properly discharge this responsibility, we designed our audit process to assess the risk of material misstatement within the statements by examining and assessing the effectiveness of the City's controls and accounting systems, and the evidence supporting the amounts and disclosures in the statements, including the appropriateness of accounting principles and significant estimates made by management.

We have considered the City's internal controls as part of the consolidated financial statement audit. This included obtaining an understanding of the internal controls (regardless of whether we intended to rely on them for the purpose of our audit); evaluating the design of these controls; and determining whether they have been implemented. This understanding was sufficient to allow us to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures. We have not determined whether relevant controls are operating effectively, as such, our understanding of internal controls should not be relied upon for any other purposes.

Our audit procedures, consisting of separate examination of each material year-end balance, key transaction, and other event considered significant to the consolidated financial statements, were concentrated in areas where risks were identified, and therefore, differences were most likely to arise.

Management has provided us with written representations, acknowledging, among other things, their responsibility for the implementation and maintenance of appropriate reporting systems and controls, including those designed to detect and prevent fraud, and to ensure the appropriateness of the amounts recorded in the accounting records, and the amounts and disclosures in the consolidated financial statements.

AUDITOR INDEPENDENCE

We confirm to Council that we are independent of the City. Our letter to Council discussing our independence is attached to this report.

AUDITORS' REPORT ON COMPLIANCE WITH MUNICIPAL ACT AND WITH AGREEMENT

For your information, we have included the Auditors' Report on Compliance with the Act as required by Section 190(2) of the Municipal Act as Appendix B.

For your information, we have included the Federal Gas Tax Revenue Annual Expenditure Report and Auditors' Report on Compliance with Agreement as Appendix C.

AUDIT RESULTS

We have satisfactorily completed our audit and are prepared to sign our Auditors' Report after Council's review and approval of the consolidated financial statements. A substantive approach was used in auditing the City's consolidated financial statements; thus, the City's controls were not relied upon.

Final materiality calculated and used to assess the significance of misstatements or omissions identified during the audit and determine the level of audit testing performed was \$3,000,000.

The Auditors' Report will provide an unqualified opinion to the members. Key matters noted during our audit are summarized in the table below.

Subjects	December 31, 2018
<ul style="list-style-type: none"> Material uncertainties related to events or conditions that may cast significant doubt on entity's ability to continue as a going concern 	None
<ul style="list-style-type: none"> Illegal or fraudulent acts 	None noted
<ul style="list-style-type: none"> Non-compliance with laws and regulations 	None
<ul style="list-style-type: none"> Fraud by employees/management with key roles in control activities 	None noted
<ul style="list-style-type: none"> Differences that may: <ul style="list-style-type: none"> Have a material effect on comparative information and the current period consolidated financial statements Cause future statements to be materially misstated Indicate significant deficiencies in controls 	None None None
<ul style="list-style-type: none"> Irregularities having a material consolidated financial statement effect 	None
<ul style="list-style-type: none"> Limitations placed on the scope of our audit 	None
<ul style="list-style-type: none"> Significant transactions not in the ordinary course of business, or other unusual related party transactions 	None noted
<ul style="list-style-type: none"> Unusual significant transactions given the entity and its environment 	None
<ul style="list-style-type: none"> Non-monetary transactions 	None noted
<ul style="list-style-type: none"> Transactions that increase risk 	None
<ul style="list-style-type: none"> Concerns with management breach of corporate conduct 	None
<ul style="list-style-type: none"> Conflicts of interest 	None
<ul style="list-style-type: none"> Disagreements with management 	None
<ul style="list-style-type: none"> Emphasis of matter or other matter paragraph included in the Auditors' Report 	None
<ul style="list-style-type: none"> Matters influencing audit appointment 	None
<ul style="list-style-type: none"> Difficulties encountered during the audit 	None

Subjects	December 31, 2018
<ul style="list-style-type: none"> • Disagreements with management's accounting estimates 	None
<ul style="list-style-type: none"> • Disagreements with management's adoption of accounting policies or emphasis on the need for a particular accounting treatment 	None
<ul style="list-style-type: none"> • Significant deficiencies in the entity's risk assessment process within the design and/or implementation of controls 	None
<ul style="list-style-type: none"> • Significant deficiencies in controls resulting from inappropriate response by management regarding implementing controls over significant risks 	None
<ul style="list-style-type: none"> • Matters giving rise to questions regarding the honesty and integrity of management 	None

To assist you in the review of the consolidated financial statements, we have made the following professional judgments on the qualitative aspects of accounting principles used in the City's financial reporting:

- Initial selection of and changes in significant accounting policies, including the adoption of new accounting pronouncements;
- The effect of significant accounting policies in controversial or emerging areas, or those unique to an industry;
- The existence of acceptable alternative policies and methods, and the acceptability of the particular policy or method used by management;
- The effect on the consolidated financial statements of significant unusual transactions;
- The issues involved, and related judgments made by management, in formulating particularly sensitive accounting estimates and disclosures;
- The basis for our conclusions regarding the reasonableness of the estimates made by management;
- Factors affecting asset and liability carrying values, including the City's bases for determining useful lives assigned to tangible and intangible assets; and
- Timing of transactions that affect the recognition of revenues or avoid recognition of expenses.

All significant management estimates were reviewed and no material differences were noted. The methodologies and processes used by management were consistent with prior periods. We have issued a letter to management containing our comments with respect to accounting matters and enhancement of controls in which we note that no significant deficiencies of internal controls were identified.

Differences identified during our audit were discussed with management. The cumulative net effect of all unadjusted differences has not resulted in material misstatement, and therefore does not affect our Independent Audit Report. A summary of significant differences has been included as Appendix A to this report.

We would like to take this opportunity to formally acknowledge the excellent cooperation and assistance we received from the management and staff of the City.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from, or relevant to, our audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all risks in your business or all control weaknesses. This report has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the report has not been prepared for, and is not intended for, any other purpose.

We appreciate having the opportunity to meet with you and respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

MNP LLP

Chartered Professional Accountants

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APPENDIX A – Summary of Significant Differences

During the course of our audit we noted the following insignificant unadjusted disclosure differences affecting the consolidated financial statements:

- To reverse the deferred interest expense prepaid balance of \$71,779 created to agree to budgeted debenture funding;
- Judgmental variance of unreconciled year-end payroll accruals of \$26,541; and
- Extrapolated variance for the valuation of inventory of \$8,508.

Canadian generally accepted auditing standards require that we request of management and Council that identified unadjusted differences be corrected. We have made this request of management, however based on both quantitative and qualitative considerations management has decided not to correct those identified differences that remain unadjusted. They have represented to us that in their judgment the unadjusted differences are, both individually and in the aggregate, not material to the consolidated financial statements.

We concur with management's representation that the unadjusted differences are not material to the consolidated financial statements and, accordingly, these unadjusted differences have no effect on our auditor's report.

Appendix B - Auditors' Report on Compliance with Municipal Act

To the Members of the Council of the City of Brandon

We have undertaken a reasonable assurance engagement of the City of Brandon's ("City") compliance from January 1, 2018 to December 31, 2018 with the criteria established by the Manitoba Municipal Relations as required by Section 190(2) of the Municipal Act ("Act") of the Province of Manitoba.

Management's Responsibility

Management is responsible for the City's compliance with the criteria established by Section 190(2) of the Act. Management is also responsible for such internal control as management determines necessary to enable the City's compliance with Section 190(2) of the Act.

Our Responsibility

Our responsibility is to express a reasonable assurance opinion on the City's compliance with the criteria established by Section 190(2) of the Act based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements 3531, *Direct Engagements to Report on Compliance*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the entity complied with the criteria established by Section 190(2) of the Act, in all significant respects.

Reasonable assurance is a high level of assurance but is not a guarantee that an engagement conducted in accordance with this standard will always detect a significant instance of non-compliance with the Act when it exists. Instances of non-compliance can arise from fraud or error and are considered significant if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. A reasonable assurance compliance reporting engagement involves performing procedures to obtain evidence about the entity's compliance with the criteria established by Section 190(2) of the Act. The nature, timing and extent of procedures selected depends on our professional judgment, including an assessment of the risks of significant non-compliance, whether due to fraud or error.

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

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Municipal Act, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Appendix B - Auditors' Report on Compliance with Municipal Act - continued

The firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion

In our opinion, the City complied with the criteria established by Section 190(2) of the Act from January 1, 2018 to December 31, 2018, in all significant respects.

We do not provide a legal opinion on City's compliance with the criteria established by Section 190(2) of the Act.

Restriction on Distribution and Use of Our Report

Our report is intended solely for the City and Manitoba Municipal Relations and should not be distributed to or used by parties other than the City or Manitoba Municipal Relations.

Brandon, Manitoba,
June 27, 2019

MNP LLP

Chartered Professional Accountants

cc: Mr. Nick Kulyk, A/Director
Manitoba Municipal Relations
508-800 Portage Avenue
Winnipeg, MB R3G 0N4

Appendix C - Independent Auditors' Report on Compliance with Agreement

To the Members of the Council of the City of Brandon:

Opinion

We have audited the Federal Gas Tax Revenue Annual Expenditure Report of the City of Brandon the ("City") for the year ended December 31, 2018.

In our opinion, the accompanying Federal Gas Tax Revenue Annual Expenditure Report of the City for the year ended December 31, 2018 is prepared, in all material respects, in accordance with the criteria established by the terms and conditions of Part 6.1(1)-(c) and Schedules 1 and 2 of the Manitoba-Municipal Gas Tax Funding Agreement for the Transfer of Federal Gas Tax Revenues between the Province of Manitoba and the City of Brandon.

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 Auditors' Responsibilities for the Audit of the Federal Gas Tax Revenue Annual Expenditure Report section of our report. We are independent of the City in accordance with the ethical requirements that are relevant to our audit of the Federal Gas Tax Revenue Annual Expenditure Report 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.

Responsibilities of Management and Those Charged with Governance for the Federal Gas Tax Revenue Annual Expenditure Report

Management is responsible for the preparation of the Federal Gas Tax Revenue Annual Expenditure Report, in accordance with the criteria established by the terms and conditions of Part 6.1(1)-(c) and Schedules 1 and 2 of the Manitoba-Municipal Gas Tax Funding Agreement for the Transfer of Federal Gas Tax Revenues between the Province of Manitoba and the City of Brandon, and for such internal control as management determines is necessary to enable the preparation of the Federal Gas Tax Revenue Annual Expenditure Report that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the City's financial reporting process.

Auditors' Responsibilities for the Audit of the Federal Gas Tax Revenue Annual Expenditure Report

Our objectives are to obtain reasonable assurance about whether the Federal Gas Tax Revenue Annual Expenditure Report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 this Federal Gas Tax Revenue Annual Expenditure Report.

Appendix C - Independent Auditors' Report on Compliance with Agreement - Continued

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 Federal Gas Tax Revenue Annual Expenditure Report, 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Evaluate the overall presentation, structure and content of the accompanying Federal Gas Tax Revenue Annual Expenditure Report and whether the accompanying Federal Gas Tax Revenue Annual Expenditure Report represents the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Brandon, Manitoba
June 27, 2019

MNP LLP

Chartered Professional Accountants

CITY OF BRANDON
FEDERAL GAS TAX REVENUE ANNUAL EXPENDITURE REPORT
YEAR ENDED DECEMBER 31, 2018

	ANNUAL	CUMULATIVE
Unspent Fund Balance, beginning of year	\$ 3,089,057	\$ -
Received from Province of Manitoba	3,050,089	31,585,896
Interest Earned	18,337	623,610
Less: Administrative Costs		
Expenditures on Eligible Projects		
Main Per Capita Projects	(2,361,425)	
Main Per Capita -Trans Projects	(189,480)	
	<u>(2,550,905)</u>	(28,602,928)
Unspent Fund Balance, end of year	\$ 3,606,578	\$ 3,606,578

June 27, 2019

Val Rochelle
City of Brandon
410 - 9th Street
Brandon, MB R7A 6A2

Dear Val:

We have been engaged to audit the consolidated financial statements of City of Brandon ("the City") as at December 31, 2018 and for the year then ended.

CAS 260 *Communication With Those Charged With Governance* requires that we communicate with you matters that are significant to our engagement. One such matter is relationships between the City and its related entities or persons in financial reporting oversight roles at the City and MNP LLP and any affiliates ("MNP") that, in our professional judgment, may reasonably be thought to bear on our independence. In determining which relationships to report, the Standard requires us to consider relevant rules and related interpretations prescribed by the appropriate professional accounting body and applicable legislation, covering such matters as:

- (a) Holding a financial interest, either directly or indirectly, in a client;
- (b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client or a related entity;
- (c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client or a related entity;
- (d) Economic dependence on a client; and
- (e) Provision of non-assurance services in addition to the audit engagement.

We are not aware of any relationship between the City and MNP that, in our professional judgment, may reasonably be thought to bear on our independence, which have occurred from January 1, 2018 to June 27, 2019.

We hereby confirm that MNP is independent with respect to the City within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Manitoba as of June 27, 2019.

The total fees charged to the City for audit services were \$42,000.00 during the period from January 1, 2018 to June 27, 2019.

This report is intended solely for the use of Council, management and others within the City and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter as well as other matters that may be of interest to you at our upcoming meeting on June 27, 2019. We will be prepared to answer any questions you may have regarding our independence as well as other matters.

Sincerely,



Chartered Professional Accountants

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