



## AGENDA

### AUDIT COMMITTEE

January 24, 2020, 9:30 AM  
IN THE COUNCIL CHAMBER  
Members

Councillor E. Woolley, Chair  
Councillor J. Farkas, Vice-Chair  
Councillor D. Colley-Urquhart  
Councillor J. Gondek  
Citizen Representative L. Caltagirone  
Citizen Representative M. Dalton  
Citizen Representative M. Lambert  
Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER
2. OPENING REMARKS
3. CONFIRMATION OF AGENDA
4. CONFIRMATION OF MINUTES
  - 4.1 Minutes of the Regular Meeting of the Audit Committee, 2019 December 06
5. CONSENT AGENDA
  - 5.1 DEFERRALS AND PROCEDURAL REQUESTS  
None
  - 5.2 BRIEFINGS  
None
6. POSTPONED REPORTS  
*(including related/supplemental reports)*  
None

7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

- 7.1 2019 City Manager's Risk Report, AC2020-0011
- 7.2 Integrated Risk Management Policy Review, AC2020-0022
- 7.3 External Auditor 2018 Management Letter, AC2020-0065
- 7.4 Audit Committee 2020 Work Plan, AC2020-0079
- 7.5 City Auditor's Office 4th Quarter 2019 Report, AC2020-0118
- 7.6 Annual Control Environment Assessment - Administration Update and Recommendation, AC2020-0023

8. ITEMS DIRECTLY TO COMMITTEE

- 8.1 REFERRED REPORTS  
None
- 8.2 NOTICE(S) OF MOTION  
None

9. URGENT BUSINESS

10. CONFIDENTIAL ITEMS

10.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

- 10.1.1 Audit Forum (Verbal), AC2020-0024  
Held confidential pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*.
- 10.1.2 External Auditor (Verbal), AC2020-0025  
Held confidential pursuant to Sections 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.
- 10.1.3 City Auditor (Verbal), AC2020-0026  
Held confidential pursuant to Sections 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

10.2 URGENT BUSINESS

11. ADJOURNMENT



**MINUTES**  
**AUDIT COMMITTEE**

**December 6, 2019, 9:30 AM**  
**IN THE COUNCIL CHAMBER**

**PRESENT:** Councillor E. Woolley, Chair  
Councillor J. Farkas, Vice-Chair  
Councillor D. Colley-Urquhart  
Councillor J. Gondek  
Citizen Representative L. Caltagirone  
Citizen Representative M. Dalton

**ABSENT:** Citizen Representative M. Lambert

**ALSO PRESENT:** City Auditor K. Palmer  
External Auditor H. Gill  
A/City Clerk D. Williams  
Recorder A. de Groot

**1. CALL TO ORDER**

Acting City Clerk Williams called the Meeting to order at 9:30 a.m.

**2. ELECTION OF CHAIR**

Following nomination procedures, Councillor Woolley was elected Chair of the Audit Committee, by acclamation.

Councillor Woolley assumed the Chair at 9:31 a.m. and Acting City Clerk Williams returned to her seat in the Council Chamber.

**3. ELECTION OF VICE-CHAIR**

Following nomination procedures, Councillor Farkas was elected Vice-Chair of the Audit Committee, by acclamation.

**4. OPENING REMARKS**

Councillor Woolley provided opening remarks and welcomed Councillor Colley-Urquhart and the Citizen Members back to the Audit Committee.

**5. CONFIRMATION OF AGENDA**

**Moved by** Councillor Gondek

That the Agenda for the 2019 December 06 Regular Meeting of the Audit Committee be confirmed.

**MOTION CARRIED**

6. CONFIRMATION OF MINUTES

6.1 Minutes of the Regular Meeting of the Audit Committee, 2019 October 24

**Moved by** Citizen Representative Caltagirone

That the Minutes of the 2019 October 24 Regular Meeting of the Audit Committee be confirmed.

**MOTION CARRIED**

7. CONSENT AGENDA

**Moved by** Citizen Representative Dalton

That the Recommendation in the following report be approved:

7.1 DEFERRALS AND PROCEDURAL REQUESTS

7.1.1 Reschedule 2020 January 23 Audit Committee Meeting to 2020 January 24, AC2019-1550

7.2 BRIEFINGS

None

**MOTION CARRIED**

8. POSTPONED REPORTS

None

9. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1 Waste and Recycling – Blue Cart Contamination Prevention Audit, AC2019-1240

**Moved by** Councilor Colley-Urquhart

That with respect to Report AC2019-1240, the following be approved:

1. That the Audit Committee receive this Report for the Corporate Record; and
2. That the Audit Committee recommend that Council receive this Report for the Corporate Record.

**MOTION CARRIED**

9.2 Audit Committee 2020 Interim Work Plan, AC2019-1541

A Revised Attachment was distributed with respect to Report AC2019-1541.

**Moved by** Citizen Representative Caltagirone

That with respect to Report AC2019-1541, the following be approved:

That the Audit Committee:

1. Approve the Audit Committee's 2020 Interim Work Plan; and
2. Recommend that Council receive this Report and the 2020 Interim Work Plan (**Revised** Attachment) for the Corporate Record in accordance with Bylaw 48M2012, Schedule A, Section 1(k).

**MOTION CARRIED**

9.3 Status of Community Associations and Social Recreation Organizations on City-Owned Land, AC2019-1175

A presentation entitled "Status of Community Associations and Social Recreation Organizations on City-owned Land AC2019-1175" dated 2019 December 06 was distributed with respect to Report AC2019-1175.

Councillor Woolley left the Chair at 10:15 a.m. and Councillor Farkas assumed the Chair.

Councillor Woolley resumed the Chair at 10:17 a.m. and Councillor Farkas returned to his regular seat on Committee.

**Moved by** Citizen Representative Caltagirone

That with respect to Report AC2019-1175, the following be approved:

That the Audit Committee recommends that Council:

1. Receive this Report and Presentation for the Corporate Record; and,
2. Direct that Attachment 3 remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 23 (Local public body confidences), and 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed 2029 December 06.

**MOTION CARRIED**

10. ITEMS DIRECTLY TO COMMITTEE

10.1 REFERRED REPORTS

None

10.2 NOTICE(S) OF MOTION

None

11. URGENT BUSINESS

None

12. CONFIDENTIAL ITEMS

**Moved by** Citizen Representative Dalton

That pursuant to Sections 16 (Disclosure harmful to business interests of a third party), 19 (Confidential evaluations), and 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*, the Audit Committee move into Closed Meeting in the Council Lounge, at 10:24 a.m. to discuss confidential matters, with respect to the following items:

- 12.1.1 Audit Committee Annual Self-Assessment (2018-2019), AC2019-1213
- 12.1.4 City Auditor (Verbal), AC2019-1483

**MOTION CARRIED**

Committee moved into Public meeting at 10:42 a.m. with Councillor Woolley in the Chair.

**Moved by** Councillor Farkas

That Committee rise and report

**MOTION CARRIED**

## 12.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

### 12.1.1 Audit Committee Annual Self-Assessment (2018-2019), AC2019-1213

People in attendance during the Closed Meeting discussions with respect to Report AC2019-1213.

Clerks: D. Williams. Advice: C. Smillie.

**Moved by** Citizen Representative Caltagirone

That with respect to Report AC2019-1213, the following be approved:

That the Audit Committee:

1. Receive this Report and Attachment for the Corporate Record;
2. Direct the Executive Assistant to bring an update on the Survey to Audit Committee in 1st Quarter 2020; and
3. Direct that this Report, Recommendations, and Closed Meeting discussions remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party) and 19 (Confidential evaluations) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed by 2034 December 06

**MOTION CARRIED**

### 12.1.2 Audit Forum (Verbal), AC2019-1481

No report was given.

### 12.1.3 External Auditor (Verbal), AC2019-1482

No report was given.

12.1.4 City Auditor (Verbal), AC2019-1483

People in attendance during the Closed Meeting discussions with respect to Report AC2019-1483:

Clerks: D. Williams. Advice: K. Palmer. Observer: C. Smillie.

**Moved by** Councillor Farkas

That with respect to Report AC2019-1483, the following be approved:

That Audit Committee:

1. Receive the Verbal Report AC2019-1483 for the Corporate Record; and
2. Direct that Closed Meeting discussions remain confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

**MOTION CARRIED**

12.2 URGENT BUSINESS

None

13. ADJOURNMENT

**Moved by** Citizen Representative Dalton

That this Meeting adjourn at 10:45 a.m.

**MOTION CARRIED**

The following items have been forwarded on to the 2019 December 16 Combined Meeting of Council:

**CONSENT:**

- Waste and Recycling - Blue Cart Contamination Prevention Audit, AC2019-1240
- Audit Committee 2020 Interim Work Plan, AC2019-1541
- Status of Community Associations and Social Recreation Organizations on City-owned Land, AC2019-1175

The next Regular Meeting of the Audit Committee is scheduled to be held on 2020 January 24 at 9:30 a.m.

CONFIRMED BY COMMITTEE ON

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CHAIR

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ACTING CITY CLERK

UNCONFIRMED



## 2019 City Manager's Risk Report

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### EXECUTIVE SUMMARY

Integrated Risk Management (IRM) enhances The City of Calgary's ability to achieve desired results including delivering services to citizens. This report provides the Audit Committee with an update on The City's Principal Corporate Risks (PCRs) with an updated risk profile. The five priority risks for 2020 are risks that have been identified as expecting to increase in pressure throughout this year, hence requiring focus, attention, as well as cross-corporate efforts to effectively manage. The 2020 five priority risks are Financial, Health & Safety, Infrastructure Management, Political, and Reputation, as identified by the bottom-up analysis of the cross-corporate risk reviews and validated by the top-down review by the Administrative Leadership Team (ALT).

#### ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Receives Report AC2020-0011 and the presentation for the Corporate Record and discussion pursuant to Bylaw 48M2012, Schedule A, Section 5; and
2. Forwards this Report to Council for the Corporate Record.

### PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit Committee is responsible for "overseeing the process of The City's Integrated Risk Management System".

In 2018, Council directed The City to create a culture "that embraces appropriate levels of risk" under the Citizen Priority A Well-Run City (C2018-0115, C2018-0201).

On 2019 December 6, the Audit Committee approved its 2020 Interim Work Plan (AC2019-1541) which included consideration of the City Manager's Risk Report on 2020 January 24.

### BACKGROUND

This report is the result of work undertaken to identify, assess, and respond to risk. The most strategic and timely information is provided to the Audit Committee biannually.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report includes three Attachments:

- 1) The City of Calgary's Principal Corporate Risks - Principal Corporate Risks are the most strategic risks that could impact The City's ability to achieve its results and deliver services to citizens. Attachment 1 presents The City's 17 Principal Corporate Risks (PCRs) with the most recent definitions.
- 2) Analysis of The City's Risk Profile (Year-end 2019) - This Attachment provides an overview of the findings from the 2019 year-end cross-corporate risk review. It includes a summary of the 2019 priority risks, as well as the 2020 priority risks.
- 3) Update on Risk Appetite and Tolerance - This Attachment provides a summary of the key themes resulting from meetings held with members of Council and citizen members of the Audit Committee in 2019 Q3.

## 2019 City Manager's Risk Report

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### Stakeholder Engagement, Research and Communication

The City is continuing to be more transparent in its communication of risk to support trust and confidence in decision-making. Where previous reports provided some information in a confidential attachment, this report makes The City's risk profile public.

Stakeholder engagement, including the meetings with Council members and citizen members of the Audit Committee will inform the advancement of IRM at The City and the three goals of the IRM Program: develop a robust risk culture, mature The City's IRM Program and improve risk communication and coordination.

### Strategic Alignment

Integrated Risk Management (IRM) is one component of The City's Performance Management System. Advancements to the IRM Program align with Council's Directive to embrace appropriate levels of risk. Risk analyses were conducted as part of the 2019 July budget reductions and the 2020 Adjustments and have influenced the findings in this report.

### Social, Environmental, Economic (External)

Effective risk management of The City's top risks helps ensure The City's ongoing resilience and ability to serve citizens in accordance with its strategic goals.

### Financial Capacity

#### ***Current and Future Operating Budget:***

Activities related to this report continue to be within approved budgets.

#### ***Current and Future Capital Budget:***

None related to this report.

### Risk Assessment

Overall, The City is exposed to more risk related to the Principal Corporate Risks. The IRM team is working with risk owners to continue to manage and monitor these risks appropriately.

If risks are not identified, assessed, and managed, The City is at risk of incurring unnecessary costs and service disruption.

#### **REASON(S) FOR RECOMMENDATION(S):**

This report is provided to Audit Committee to support in its role to oversee risk management for the organization by providing information on the most significant risks to the organization as well as the efficiency and effectiveness of Administration's risk management work.

#### **ATTACHMENT(S)**

1. Attachment 1 – The City of Calgary's Principal Corporate Risks
2. Attachment 2 – Analysis of The City's Risk Profile (Year-end 2019)
3. Attachment 3 – Update on Risk Appetite and Tolerance

## The City of Calgary's Principal Corporate Risks

The most strategic risks that could impact The City's ability to achieve its results and deliver services to citizens (i.e. the Principal Corporate Risks (PCRs)) are reviewed and discussed at least twice per year by the Administrative Leadership Team (ALT).

The PCRs were most recently reviewed and approved by the ALT on 2019 December 10. Since the 2019 Mid-Year Risk Report to the Audit Committee (AC2019-0356), there have been some changes to the descriptions of the PCRs, the majority of which are minor. The more significant of these changes are:

- Environmental Risk - broadened to include the impact of climate change.
- Financial Risk - updated to be more specific about funding constraints and impact on critical infrastructure.
- Health & Safety Risk – broadened to include workforce culture, organizational resilience and employee health, safety and well-being.
- Partnership Risk – addition of the focus on Civic Partners and Community Associations and Social Recreation Organizations with a Lease or License of Occupation.
- Social Impact Risk – broadened to reflect the shared responsibility between the government and the community for social outcomes, pressure on The City's capacity to respond to diverse needs of Calgarians, and the negative impacts on social well-being.
- Technology Risk – updated to include the definition of vulnerabilities.

The 17 Principal Corporate Risks are shown below in alphabetical order along with the respective risk owner.

**Business Continuity Risk** *Owner: General Manager, Community Services*

An interruption to an essential service provided to Calgarians as a result of a vulnerability being exposed to a natural, technological, or human-induced hazard.

**Capacity for Change Risk** *Owner: City Manager*

Increasing velocity, pace and quantity of change in the natural, social, economic and political environment, combined with limited flexibility in the organization to respond contributes to reduced capacity, preparation and experience required to implement new initiatives and adapt to changing priorities.

**Economic Risk** *Owner: City Manager (Note: Owner was changed since the 2019 Mid-Year Risk Review)*

Citizens and the business community face ongoing pressure due to the volatility of local and regional economies. This risk can impact demands for municipal services (including social supports), municipal revenue, and The City's priorities.

**Environmental Risk** *Owner: General Manager, Utilities & Environmental Protection*

Climatic changes may cause disruptions to operations and service delivery as well as impacts to infrastructure, the environment, and Calgary's citizens. The Climate Resilience Strategy aims to maximize Calgary's resilience in the context of a changing climate.

**Financial Risk** *Owner: Chief Financial Officer*

Funding constraints (lower general revenues, franchise fees and/or higher expenses) and over-reliance on debt financing may lead to an inappropriate financing structure and negatively impact service delivery, the ability to maintain critical infrastructure and adapt to growth.

**Growth Risk** *Owner: General Manager, Planning & Development*

While growth carries a number of economic and social benefits, it is also a significant risk for The City because infrastructure and services need to be in place timed with demand. This means The City must anticipate both the level and spatial pattern of growth. The risks of ineffective growth planning are financial and reputational which can impact The City's capacity to deliver and provide infrastructure and services that meet city-wide demands.

**Health & Safety Risk** *Owner: General Manager, Utilities & Environmental Protection*

Workforce culture, organizational resilience, and employee health, safety and well-being are affected by internal factors such as the pace/amount of organizational change, as well as external factors such as Calgary's economic environment and population health.

**Infrastructure Management Risk** *Owner: General Manager, Transportation*

The City owns and operates public infrastructure systems such as water service, storm and sanitary sewers, roads, sidewalks, pathways, bridges and other structures and buildings. The City is exposed to the risk of these assets failing as they age, particularly if lifecycle maintenance is not prioritized appropriately.

**Legal & Compliance Risk** *Owner: City Solicitor and General Counsel*

Law provides Legal Counsel and Advocacy (LCA) services to the Mayor and Council, City Manager, General Managers, Directors and employees of every business unit at The City. Advice is not always sought in sufficient time to allow a strategy to be developed or action to be taken on a proactive basis, resulting in the corporation having to react to issues or lawsuits. This can impair the corporation's ability to complete projects and conclude transactions on time, on budget and within scope, and may result in financial losses or unnecessary business, legal, financial or reputational risk for The City.

**Operations, Process Risk** *Owner: Chief Financial Officer*

Failure to ensure appropriate processes are in place to manage the complexity of operations.

**Partnership Risk (Civic Partners)** *Owner: General Manager, Community Services*

Counterparty risk arising from City partners unable to deliver services. This analysis focuses on Civic Partners, and Community Associations and Social Recreation Organizations with a Lease or License of Occupation. The health and sustainability of these partners impacts delivery of services and programs to Calgarians and the management and operation of City-owned assets.

**Political Risk** *Owner: City Manager*

Changing priorities or actions of municipal, regional, or other orders of government paired with rapid changes in the natural, social or economic environment could result in funding challenges that may adversely impact The City's ability to deliver on citizen expectations.

**Reputation Risk** *Owner: Director, Customer Service & Communications*

Reputation risk is damage to the image of The City or negative perceptions by citizens or stakeholders as a result of actions of elected officials or City employees. This risk can threaten The City's ability to maintain positive and productive relationships with citizens, businesses, partners and the ability to achieve its corporate objectives.

**Security Risk** *Owner: City Solicitor and General Counsel*

A violent attack on or in City space could result in loss of life, serious injury as well as halting critical service delivery.

**Social Impact Risk** *Owner: General Manager, Community Services*

Changing social conditions, and the model of shared responsibility between government and community for social outcomes puts pressure on The City's capacity to respond to the diverse needs of Calgarians with preventive programs and services. This risk can have negative impacts on the social wellbeing of citizens and result in The City investing in more costly downstream interventions.

**Talent Management & Workforce Planning Vulnerability Risk** *Owner: Chief Human Resources Officer*

Inability to attract, develop, engage and retain key talent and knowledge to meet current and future business needs.

**Technology Risk** *Owner: Chief Information Technology Officer*

Vulnerabilities are any weaknesses identified in The City's information technology environment that may leave information and technology assets exposed to a potential threat through malicious emails, websites, viruses, data breaches and information disclosures. These threats can put The City at risk for disruption to services, information theft or loss, malicious programs being uploaded, or identity theft.



## Analysis of The City's Risk Profile (Year-end 2019)

A risk profile provides identification, analysis, and levels of risk taken. This information is useful as it promotes risk-based decision making which is tied to The City's ability to achieve results. This attachment provides The City's risk profile in three parts:

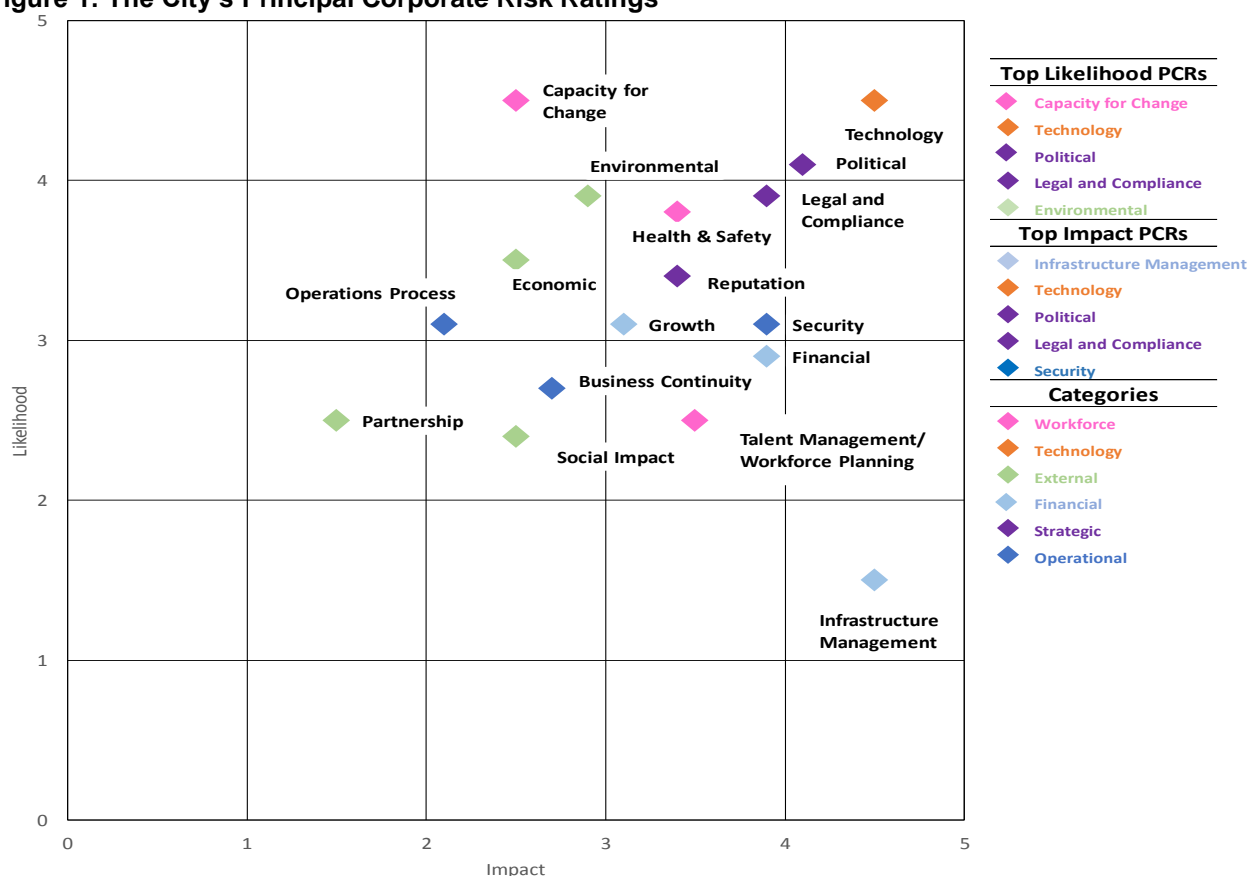
1. A visual representation of The Principal Corporate Risks' (PCRs) ratings resulting from the 2019 year-end cross-corporate review, including key points and changes since the last update in 2019 July.
2. The status of the PCRs we have been prioritizing throughout 2019 as well as the five priority risks for 2020.
3. The findings from the recent bottom-up and top down analysis of risks to the corporation.

As The City continues to be more transparent, more analysis of the PCRs has been made public. This communicates to citizens The City is managing its risks to provide efficient and effective municipal services.

### Part 1: Principal Corporate Risk Ratings

The City's risk profile is updated twice a year. Figure 1 illustrates The City's Principal Corporate Risk (PCR) ratings as of 2019 year-end. This format shows the relative placement of the PCRs and visualizes The City's top 5 risks in terms of likelihood and impact.

**Figure 1: The City's Principal Corporate Risk Ratings**



Note: The categories in Figure 1 (i.e. workforce, technology, external, financial, strategic, operational) indicate which PCRs are related and connected to each other. Risks within a common category can have a compounding impact.

These PCRs have changed their rating since the 2019 Mid-Year Corporate Risk Report to the Audit Committee:

PCR	Change	Justification
<b>Environmental Risk</b>	Impact rating changed from Significant to Moderate	Rating reflects a shift in emphasis from contaminated sites (mid-year) to climate change (year-end).
<b>Operations, Process Risk</b>	Risk rating has changed from Medium to High	Rating reflects risk frequently flagged in the Service Risk Registers as "high," struggles to deliver service effectively during a period of reducing resources.
<b>Political Risk</b>	Risk rating has changed from High to Extensive	Rating reflects shift in amount and timing of funding from other orders of government (federal and provincial). This puts capital investments and service delivery dependent on such funding at risk.
<b>Reputation Risk</b>	Risk rating has changed from Medium to High	Rating reflects that citizen satisfaction related to City performance declined for both Council and Administration in 2019. Performance measures monitored by The City for this risk have likely been negatively impacted by the sluggish economic recovery, increased public scrutiny related to the property tax shift, and reductions in City services.
<b>Social Impact Risk</b>	Risk rating has changed from Low to Medium	Rating reflects an increase in financial hardship for Calgarians, the gap between affordable housing need and supply, and the rising demand for social support services.
<b>Talent Management / Workforce Planning Risk</b>	Risk rating has changed from Medium to High	Rating reflects that some areas in The City have positions requiring a specific skill set which continue to be difficult to fill. Throughout 2019 the ability for The City to engage and retain employees has become more challenging.
<b>Technology Risk</b>	Risk rating has changed from High to Extensive	Rating reflects that for this risk the corporation has a high level of exposure with the potential for a severe risk event. Cyber threats and attacks are increasing globally including municipalities in North America.

The City's risk rating is determined by combining a risk's likelihood and impact, see Appendix 1 for The City's standard terms and definitions.

Each Principal Corporate Risk is managed by a risk owner and their teams through monitoring key risk measures or indicators, overseeing existing controls or treatment techniques, and implementing new controls or treatments as needed.

## **Part 2: Five Priority Risks**

Risk levels can rise in an environment of increased complexity, volatility, and/or exposure. As a result, some risks require more focused attention at a given point in time than others. These risks can be identified through applying the following criteria:

- Expected increase in pressure on this risk
- Requires focus and attention on risk controls or responses

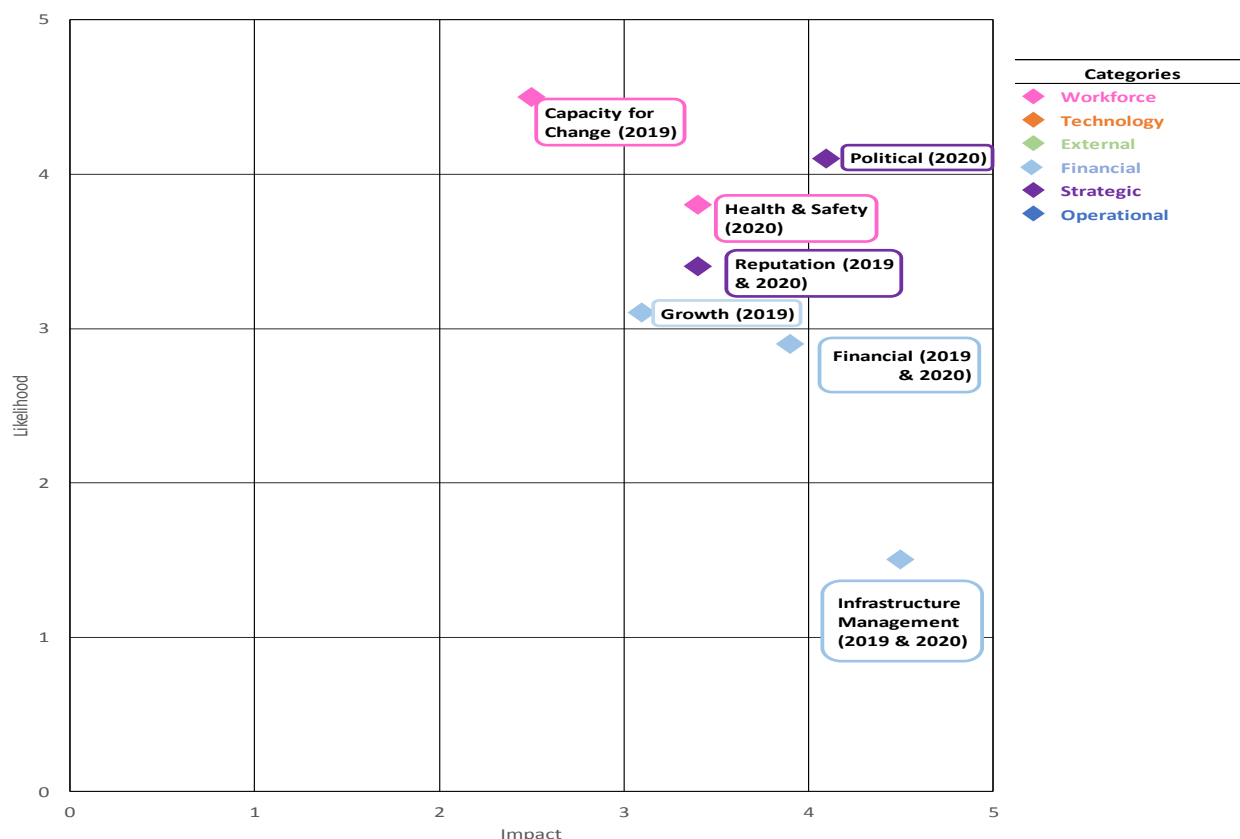


- Requires cross-corporate effort to effectively manage

The City will continue to report, monitor, and manage all significant risks to the corporation. Using a list of five priority risks supports this goal. Specifically, the advantages to maintain an ongoing, updated list of risks to prioritize is that it allows for focused discussion, offers prominence to risks that require extra attention, and is forward looking which promotes proactive strategies.

In 2019, 5 risks were identified and underwent enhanced reporting and monitoring. For 2020, the process identified some changes in the 5 risks most requiring attention. Figure 2 illustrates the five priority risks throughout 2019 as well as the revised list of priority risks for 2020.

**Figure 2: Priority Risks in 2019 and 2020**



**A. 2019 priority risks that are not included for 2020**

***Capacity for Change Risk***

Throughout 2019, City services have consistently noted an increase in internal and external changes impacting their ability to deliver services. Concern has been raised about whether the organization can rely on the same ability to change as it has in the past. This is due to constrained resources, morale, as well as perceptions of risk aversion.

The City is monitoring this risk as it may take some time to materialize or to be reflected in risk indicators/performance measures. This relates to health, safety, and wellness strategies and concern with staff retention and attraction.

While this will remain an important risk in 2020, there is an opportunity to shift our focus to the Health & Safety Risk. The City has undergone a period of intensive change in 2019 and this can impact employees' health, safety and wellness. As such the Health and Safety Risk has been identified so the organization can actively manage specific exposures and impacts to its workforce.

#### *Growth Risk*

The City of Calgary undertook an ambitious growth strategy in 2018 to support the needs of the city and its population. While the city is experiencing growth, it is not as high as projected, and this growth could become a challenge if associated funding is not aligned. This risk is related to the Economic Risk as well as other risks related to service delivery.

While this risk can have short-term ramifications, it is also a long-term strategic risk. The City has developed and presented a new reporting structure to monitor and support decision making to manage this risk.

While this will remain an important risk to monitor and manage in 2020, The City has the opportunity to shift its focus to the Political Risk, as the relationship between orders of government can support our management of both the Growth Risk and the Economic Risk.

### **B. 2019 priority risks that are included for 2020**

#### *Financial Risk*

Financial risk has been frequently mentioned by services, and during the most recent Service Risk Register submissions we have seen an increase in 'High' and 'Severe' ratings for this risk. This risk is related to the Economic Risk, and The City's response to Calgary's economic recovery. The organization is taking on more corporate financial risk by reducing corporate costs to manage fluctuating prices. This reduces the ability to absorb adverse price movements and other potential statutory obligations.

Financial risk is considered for long range planning as well as strategic decision making. This risk is actively managed and closely monitored to ensure the continued success in the financial management of the organization.

This risk is one to prioritize in 2020 because:

- The City is still facing uncertainty, particularly related to property tax revenues, anticipated offsite levies, and the impact of upcoming provincial budgets.
- In 2018 December, a minimalist appetite for debt risk was identified. The City actively focuses on mitigating this risk. This risk has an overall rating of 'High' and is closely monitored.

#### *Infrastructure Management Risk*

This risk is expected to become more challenging with an amalgamation of risk due to the 2019 July budget reductions, the 2019 November service plans and budgets adjustments, and the 2019 provincial budget's reductions to capital funding. The City has flagged a funding gap between allocated resources and what is required to maintain existing, and invest in new, infrastructure. There are two consistent messages when this risk is raised by services. The first is that some services require positions with specific expertise to better

manage this risk. The second is that deferred maintenance/delayed upgrades increase risk in this area. This risk is impacted by the capital funding risk, which is significant because:

- The City's capital program is also facing heightened levels of uncertainty and risk exposure. The provincial budget tabled in 2019 impacts The City as municipal capital grants and programs have been reduced from anticipated levels or eliminated. As a result, The City has reviewed and re-balanced the 2019-2023+ capital budget to address the funding shortfall.
- There are several unknowns related to capital funding including: new regulations, and the provincial budget in 2020.
- The City will have to re-prioritize work and eliminate selected capital projects and defer others.

The City actively manages assets through lifecycle maintenance and replacement in capital infrastructure investment programs. The City has adopted a prioritization process to ensure the most critical and necessary upgrades and maintenance work is completed first before addressing other concerns with infrastructure.

This risk is one to prioritize in 2020 because:

- Capital funding is increasingly constrained due to recent reductions from other orders of government and as a result The City's ability to meet its desired outcomes for capital projects is at risk. A review of The City's capital portfolio to identify least harm reductions, led by Infrastructure Calgary and supported by the IRM team, is underway to address this risk.
- The City has a cautious appetite for this risk which is rated as the highest impact.

### *Reputation Risk*

The City's risk to its reputation involves the monitoring and managing either an increase or decrease in public trust and confidence. This risk has been raised frequently throughout 2019. The City's reputation is related to the Economic Risk and our response to it, including the ongoing management of the Financial Risk. There is a concern throughout Service Risk Registers that funding will limit resources to the point where we will be unable to deliver services citizens expect, and that this will have an adverse impact on The City's reputation.

This risk is actively monitored through regular research and engagement with stakeholders and citizens. By aligning communication strategies to corporate goals and priorities we can continue to manage and respond to this risk using both preventative and reactive measures.

This risk is one to prioritize in 2020 because:

- The City has been experiencing, and may continue to experience, increased public scrutiny. Reputation indicators such as citizen trust, satisfaction with City performance and perceptions of transparency have experienced declines. As The City is invested in managing this risk, it will continue to monitor this trend.
- The City's appetite for this risk is cautious, and the risk rating moved from 'Medium' in 2019 June to 'High' in 2019 December.

## C. New Risks to Prioritize for 2020

### *Health & Safety Risk: focusing on people in the organization*

This risk is one to prioritize in 2020 because:

- Health, safety, and wellness has been identified as a priority for the organization. Ensuring staff have the resources and support they need reduces this risk.
- This risk is closely related to the Capacity for Change Risk and the Talent Management and Workforce Planning Vulnerability Risk as these three risks impact City staff. It also has significant financial and reputational implications.
- This is an area of risk The City has a minimalist appetite for and it has a risk rating of 'High'.

*Political: impacts from a strategic risk*

This risk is one to prioritize in 2020 because:

- In 2020, The City will continue to monitor and manage the relationship with other orders of government with the intent to provide clarity, input, and collaborative approach to policy and funding.
- The provincial government has noted that further regulations could be reopened and renegotiated. The City will need to prepare for any associated risks.
- The City is focusing on an increase in communication and collaboration between orders of government.
- The City's appetite for this risk is cautious, and it has increased due to the provincial government funding changes, moving from a rating of 'High' to 'Extensive'.


### **Part 3: Risk Analysis and Service Delivery**

The management of the Principal Corporate Risks and using risk information to support strategic decision making relies on the ongoing management of risk at the operational level for service delivery. Service Risk Registers identify, assess, and support the management of risks to service delivery. They are reviewed and updated by service owners throughout the corporation. The service risks are collected and correlated twice a year through a corporate risk review process. Following the analysis of the Service Risk Registers for the 2019 year-end review, two overall conclusions were drawn that apply broadly throughout the organization.

The first is that the Financial Risk and the Operations, Process Risk are most frequently cited, this means those two risks are the most prevalent and top of mind for service owners.

The second conclusion is that there remains a significant portion (53%) of "High" and "Severe" risks, most of which have been identified as requiring "significant improvement" to manage. This trend will continue to be monitored and a more robust review of risk response strategies will be undertaken if it continues. The IRM team will continue to work with risk owners and their teams to support the development, implementation, and tracking of risk response strategies.

## Appendix 1: The City's Risk Matrix

<div>  <div>Risk Matrix</div> </div>							
Likelihood	Level	Probability*					
	5 Almost Certain	90% and greater	Medium	High	High	Extensive	Extensive
	4 Likely	65-89%	Low	Medium	High	High	Extensive
	3 Possible	35-64%	Low	Low	Medium	High	High
	2 Unlikely	11-34%	Slight	Low	Low	Medium	High
	1 Rare	10% and less	Slight	Slight	Low	Low	Medium
Impact							
			1 Negligible	2 Minor	3 Moderate	4 Significant	5 Severe
			Minimal impact. Still able to achieve objectives without disruption.	Coping strategies required - able to be addressed with existing plans and resources.	Challenges to achieve objectives. Some delay, aspects of objectives only met in part.	Difficulties to achieve objectives. Delays or notable aspects of objectives not completed.	Unable to meet objectives due to serious, extended disruption.

## Appendix 2: The City's Risk Appetite Scale

Risk Appetite is the level of risk that the organization is willing to accept to achieve its results.

The City has adopted the following common language and scale to refer to levels of risk appetite which can be applied to different contexts, risks, and areas of risk.

Level 1 Averse	Level 2 Minimalist	Level 3 Cautious	Level 4 Open	Level 5 Motivated
The City is not willing to accept risk under any circumstances.	The City is not willing to accept risk in most circumstances.	The City is willing to accept risk in certain circumstances.	The City is willing to accept risks.	The City accepts opportunities that are inherently high risk.

Note: When specific appetite is referenced, it is based on discussions with senior management (i.e. Principal Corporate Risk Owners and ALT).



## Update on Risk Appetite and Tolerance

Enhancing understanding of acceptable levels of risk taking builds trust and confidence and supports decision-making. Risk appetite and tolerance discussions support decisions about resource allocation when it comes to over-managing or undermanaging risks.

Over the last several years, as part of advancing Integrated Risk Management (IRM) at The City, there have been efforts to work with stakeholders to develop tools and techniques to apply risk appetite and tolerance in different contexts. These efforts align with the Council Directive under the Well-Run City Citizen Priority:

We need to recognize that we miss opportunities for innovation in management, service delivery and planning because of an existing culture of risk avoidance. We need to create a culture, including City Council, which embraces appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve.

Council reiterated the importance of understanding and applying risk appetite and tolerance at the 2019 December 9 Strategic Meeting when it was agreed that Administration should consider ways to incorporate 'Strategic Risk Tolerance' into Council's work for 2020 (C2019-1499).

In 2019 Q3, the Integrated Risk Management team met with the three citizen members of the Audit Committee and with 10 members of Council. The chart below summarizes a few key and consistent themes from those discussions.

Theme	Response summary
The organization's risk aversion and awareness	<ul style="list-style-type: none"> <li>Overall, there is a perception that Administration has a risk averse culture and focuses primarily on risk identification and the downside of risks. It appears that there is a lack of awareness of "levels of risk taking" and consideration for the "upside" of risks.</li> <li>There is a sense that risk aversion is motivated by fear and this can result in missed opportunities and revenues. Some noted that risk aversion may be "driven by Council".</li> </ul>
Comprehensive risk assessments	<ul style="list-style-type: none"> <li>To embrace appropriate levels of risk taking, risk assessments should include risk response strategies and should discuss the risk of doing nothing or the impact of not being open to taking risks. Currently, there is a sense that Administration tends to focus on, and over-manage, operational risks to the possible detriment of opportunities to achieve results for the community.</li> <li>Some Council members indicated that risk assessments in reports should include a comparison of costs and benefits in the proposed course of action.</li> <li>There is a perception that as an organization, The City should emphasize the value of risk taking in formulating a return on investment.</li> <li>It was noted that often reports focus on risks that are immaterial rather than reporting on risks that could have material impact.</li> </ul>

Theme	Response summary
Discussing and taking risk demonstrates what your values are	<ul style="list-style-type: none"> <li>Some members of Council suggested establishing permission space for the organization to move forward, beyond the fear of failure, to promote “failing fast” and continuous improvement.</li> <li>Many of those interviewed suggested having open and frank risk conversations, with the right information, presented by the right people. This would allow for the appropriate amounts of risk related to what Calgarians want. One respondent stated: "I would love to hear this is a big risk... but it's worth it."</li> <li>Risk taking related to forging strategic partnerships, investing in employees, and trying new things was identified as something to be encouraged.</li> </ul>

The meetings with members of Council and the three citizen members of the Audit Committee will be used to advance Integrated Risk Management at The City including but not limited to:

- support discussions with service owners and their teams about appropriate levels of risk in pursuit of the efficient and effective delivery of services to citizens,
- enhance reports and presentations of risks to Committee and Council, and
- inform risk management tools and techniques.

Updates on these activities will be brought forward to the Audit Committee and Council as part of the mid-year and year-end risk reports.



Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0022

## **Integrated Risk Management Policy Review**

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### **EXECUTIVE SUMMARY**

The purpose of the Integrated Risk Management (IRM) Council policy (CC011) is to embed a proactive, corporate-wide and systematic approach to managing risks that impact The City of Calgary's ability to achieve desired results, including delivering services to citizens. In keeping with this purpose, the current policy, as shown in Attachment 1, has been reviewed and a revised policy, as shown in Attachment 2, is being recommended.

#### **ADMINISTRATION RECOMMENDATION:**

That the Audit Committee recommends that Council approve the revised Integrated Risk Management Council policy (CC011) in Attachment 2.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

The Integrated Risk Management (IRM) Council policy (CC011) was adopted by City Council on 2004 July 6.

### **BACKGROUND**

Council policies must undergo a formal review every four years under the Council Policy Review Program. The purpose of the review is to determine whether:

- The Council policy is aligned with Council's objectives, priorities and resolutions;
- The objectives of a Council policy are being achieved;
- A Council policy is still required;
- Changes are needed to improve a Council policy's effectiveness or clarity; and,
- The Council policy is up-to-date and remains consistent with existing legislation, regulations, bylaws and policies.

As such, the current IRM Council policy, as shown in Attachment 1, was reviewed by Corporate Initiatives as the policy owner, in collaboration with the City Clerk's Office, and internal City stakeholders. As a result of the review, changes are being recommended, as shown in Attachment 2. A summary of the changes is shown in Attachment 3. The changes were endorsed by the Administrative Leadership Team at the 2019 December 10 ALT meeting and are being brought forth to the Audit Committee for review and referral to Council for approval.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

The recommended update to the policy fulfills the Council Policy Review Program requirements. Specifically, the revised policy:

- Reflects the opportunity to capitalize on risk (i.e. there is an upside as well as a downside to risk), which is consistent with Council's direction under the Citizen Priority of A Well-Run City "to create a culture that embraces the appropriate levels of risk".
- Includes additional ways to manage risk beyond mitigation (i.e. it can be transferred, accepted, mitigated, avoided or embraced to capitalize on opportunities).
- Aligns with the ISO 31000:2018 update to the international standard, which is the foundation of The City's Integrated Risk Management Model.
- Reflects related Council and Administrative policies and current practices.

Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0022

## **Integrated Risk Management Policy Review**

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### **Stakeholder Engagement, Research and Communication**

The review of the policy included researching risk management policies in other jurisdictions, incorporating ISO 31000 risk management standard updates and engaging with internal stakeholders. Should Council adopt the update, the final adopted policy will be submitted to the City Clerk's Office and will be communicated as part of the Integrated Risk Management team's 2020 work plan, administration guidelines, reporting guidance and tools.

### **Strategic Alignment**

The revised policy aligns with Council's direction to create a culture "that embraces appropriate levels of risk" under the Citizen Priority A Well-Run City; supports transparency in the communication of risk to build public trust and confidence in decision-making; incorporates changes to the International Organization for Standardization's Risk Management Standard (ISO 31000); and reflects related Council and Administrative policies and current practices.

### **Social, Environmental, Economic (External)**

Conducting a review of the policy promotes awareness, accountability, transparency and good governance at the City of Calgary.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

None related to this report

#### ***Current and Future Capital Budget:***

None related to this report

### **Risk Assessment**

The update to the IRM Council policy ensures that it is aligned, effective and consistent. Outdated or inaccurate policies pose a financial or reputational risk to The City.

**REASON(S) FOR RECOMMENDATION(S):** The revised IRM Council policy fulfills the review requirements and strengthens the approach to managing risks that impact The City's ability to achieve desired results including delivering services to citizens.

### **ATTACHMENT(S)**

1. Attachment 1 – Integrated Risk Management Policy CC011 (current)
2. Attachment 2 – Integrated Risk Management Policy CC011 (revised)
3. Attachment 3 – Summary of Changes to the Integrated Risk Management Policy CC011



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**Policy Title:** **Integrated Risk Management Policy**  
**Policy Number:** **CC011**  
**Report Number:** **AC2004-28**  
**Approved by:** **City Council**  
**Effective Date:** **2004 July 6<sup>th</sup>**  
**Business Unit:** **Corporate Initiatives, Chief Financial Officer's Department**

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## **BACKGROUND**

Council adopted this policy to provide a more systematic and consistent approach to risk management at The City of Calgary.

## **PURPOSE**

To embed a more proactive, corporate-wide and systematic approach to managing risks that impact The City of Calgary's ability to achieve its objectives.

## **APPLICABILITY**

This policy applies to all employees reporting directly or indirectly to the City Manager.

## **POLICY**

## **PRINCIPLES OF INTEGRATED RISK MANAGEMENT**

Risk management is an essential component of good management.

- Better decisions are made when supported by a systematic approach to risk management.
- Risk management should be integrated into existing long term strategic and business planning as well as informed decision-making in the day-to-day management of activities.
- Risk management is consistently applied to the development and implementation of policy, programs, plans and future directions of The City of Calgary.
- The integration of risk management at The City of Calgary must be supported by a corporate philosophy and culture that encourages everyone to manage risks proactively and to communicate openly about risk. Significant risks should be disclosed when reporting to management, Council or Committee of Council.



## **DEFINITIONS**

**Risk** – An event that impacts the achievement of objectives and deals with the uncertainty of events. It is measured in terms on consequence and likelihood.

**Risk management** – the process of identifying, analyzing, evaluating, mitigating, communicating and monitoring risks on objectives.

**Integrated risk management** – Integrated Risk Management is a continuous, proactive and systematic process to understand, manage and communicate risks from an organization wide perspective.

## **RESPONSIBILITY FOR RISK MANAGEMENT**

- The City Manager is responsible for risk management throughout the Corporation of The City of Calgary and for the ensuring compliance with this Policy.
- All employees are responsible for managing risks within their respective areas.
- Roles and responsibilities are further defined in the Integrated Risk Management Procedures.

## **RISK TOLERANCE**

- Risk tolerance is the level of risk acceptable to Council and senior management.
- All employees will operate within approved risk tolerance levels.

## **MANAGING RISKS**

The City of Calgary will strive to manage risks in compliance with:

- Legislated requirements;
- City of Calgary values;
- This policy; and
- Tools, techniques and processes approved by senior management.
- Risks should be assigned to the person best able to manage the risk.



- All employees will actively attempt to identify and manage risks under their control to reduce the likelihood of risks occurring. If an employee does not have control over the occurrence of a risk, the employee will implement strategies to reduce the impact of the risk if it does occur.
- All risks should be managed using the Integrated Risk Management Framework approved by Council. The steps in this Framework include:
  - Assessing internal and external factors affecting risk
  - Assessing and clarifying corporate objectives
  - Identifying risks
  - Analyzing and evaluating risks
  - Accepting or mitigating risks
  - Monitoring and reporting on risks
  - Communicating risks and mitigation strategies to Council, Committee and senior management
- The Integrated Risk Management Procedures provide details on these steps.
- Risk management is an ongoing, iterative process and risk and mitigation strategies should be re-assessed at regular intervals.

## **REPORTING TO COUNCIL**

- All presentations to Council or Committee must include disclosure of significant risks associated with alternatives presented and the recommended course of action. The common language and terms defined in the Integrated Risk Management Procedures should be used when presenting to Council, Committee and Senior Management.
- In some situations it may be appropriate to request that Council review the risks presented *in camera*. ***It is not acceptable to protect Council from bad news by concealing risks.***
- The Integrated Risk Management Procedures provide additional details on reporting tools and requirements.



## **EXCEPTIONS**

- There are no exceptions to this policy without the express approval of Council.

## **PROCEDURE**

### **COMPLIANCE WITH THE INTEGRATED RISK MANAGEMENT POLICY AND PROCEDURES**

- All employees are expected to comply with the requirements of laws, regulations and Council Policies including this Policy. Failure to comply will be considered misconduct and can result in disciplinary measures up to and including dismissal.

## **AMENDMENTS**

None

## Council Policy

**Policy Title:** Integrated Risk Management Policy  
**Policy Number:** CC011  
**Report Number:** AC2004-28  
**Adopted by/Date:** 2004 July 6<sup>th</sup>  
**Effective Date:** TBD  
**Last Amended:** TBD  
**Policy Owner:** Corporate Initiatives, Chief Financial Officer's Department

### 1. POLICY STATEMENT

- 1.1 Council adopted this Council policy to provide a more systematic and consistent approach to risk management at The City of Calgary ("The City").

### 2. PURPOSE

- 2.1 To embed a more proactive, corporate-wide and systematic approach to managing risks that impact The City's ability to achieve its results.

#### 2.2 Principles of Integrated Risk Management

Risk management is an essential component of good management.

- (a) Better decisions are made when supported by a systematic approach to risk management.
- (b) Risk management should be integrated into existing long term strategic and business planning as well as informed decision-making in the day-to-day management of activities.
- (c) Risk management is consistently applied to the development and implementation of policy, programs, plans and future directions of The City.
- (d) The integration of risk management at The City must be supported by a corporate philosophy and culture that fosters risk awareness rather than risk avoidance and encourages everyone to manage risks proactively, and communicate openly about risk. Significant risks should be disclosed when reporting to City management, Council or Committee.

### 3. DEFINITIONS

- 3.1 In this Council policy:

- (a) "Integrated risk management" is a continuous, proactive and systematic process to understand, manage and communicate risks from an organization wide perspective.
- (b) "Risk" is the effect of uncertainty on the achievement of results. Risk is measured in terms of impact and likelihood and can be positive or negative.

- (c) “Risk appetite” is the level of risk that the organization is willing to accept to achieve its results.
- (d) “Risk management” is the process of identifying, analyzing, evaluating, treating, communicating and monitoring risks.
- (e) “Risk tolerance” is the amount of risk that the organization can assume without material impact on the achievement of results.

#### **4. APPLICABILITY**

- 4.1 This Council policy applies to Council when engaging in risk management activities at The City and all City employees.
- 4.2 This Council policy should be applied in conjunction with other Council and Administrative policies and standards related to risk management that are specific to The City, department or service.

#### **5. PROCEDURE**

##### **5.1 Responsibility for Risk Management**

- (a) Council and senior management are responsible for setting risk appetite and risk tolerance for the organization.
- (b) The City Manager is responsible for risk management throughout The City and for ensuring compliance of City employees with this Council policy.
- (c) All City employees are responsible for managing risks within their respective areas.
- (d) Administration defines the roles and responsibilities for risk management at The City.

##### **5.2 Managing Risks**

###### **5.2.1 The City will strive to manage risks in compliance with:**

- (a) Legislated requirements;
- (b) The City’s values;
- (c) This policy; and
- (d) Tools, techniques and processes approved by senior management at The City.

###### **5.2.2 Risks should be assigned to the person best able to manage the risk.**

###### **5.2.3 All employees of The City will accept an appropriate level of risk defined by approved risk appetite levels.**



- 5.2.4 All employees of The City will operate within approved risk tolerance levels.
- 5.2.5 All employees of The City will actively attempt to identify and manage risks under their control.
- 5.2.6 All risks are to be managed using the following steps:
- (a) Establish the context
    - i. Assess and clarify corporate results
    - ii. Assess internal and external factors affecting risk
  - (b) Risk Assessment
    - i. Identify risks
    - ii. Analyze risks
    - iii. Evaluate risks
  - (c) Risk Treatment
    - i. Accept or manage risks (risk response strategies)
  - (d) Monitor and review risks
  - (e) Communicate and consult on risks
- 5.2.7 Risk management is an ongoing, iterative process and risks and risk response strategies should be re-assessed at regular intervals.

### 5.3 Reporting to Council

- 5.3.1 All presentations to Council or Committee must include disclosure of significant risks associated with alternatives presented and the recommended course of action.
- 5.3.2 City Administration develops risk reporting guidance and tools.

### 5.4 Exceptions

- 5.4.1 There are no exceptions to this Council policy without the express approval of Council.

### 5.5 Compliance with the Integrated Risk Management Policy and Procedures

- 5.5.1 All employees of The City are expected to comply with the requirements of laws, regulations and Council policies including this Council policy. Failure to comply will be considered misconduct and can result in disciplinary measures up to and including dismissal.

## 6. AMENDMENT(S)

Date of Council Decision	Report/By-Law	Description

7. **REVIEWS(S)**

Date of Policy Owner's Review	Description

PROPOSED COUNCIL POLICY

## Summary of Changes to the Integrated Risk Management Policy CC011

In addition to being in the new Council policy template (including related formatting), the table below highlights changes for consistency throughout the policy and more specific changes related to adding or deleting content.

Changes Throughout the Policy	
Change	Rationale
Replaced the word “objectives” with “results”	<ul style="list-style-type: none"> <li>Emphasizes the importance of a results-based organization in alignment with The City’s Performance Management System and as reflected in the One Calgary service plans and budgets.</li> </ul>
Changed the word “mitigation” to “risk response”	<ul style="list-style-type: none"> <li>Reflects that there are several ways to manage risk with mitigation being one possible risk response strategy.</li> </ul>
Section 1: Policy Statement	
The background statement in the current policy has been placed under this section of the new Council policy template.	
Section 2: Purpose	
Change	Rationale
Added “fosters risk awareness rather than risk avoidance and” (2.2.d of revised policy)	<ul style="list-style-type: none"> <li>Encourages consideration of the upside of risk (i.e. capitalizing on opportunities rather than always seeking to avoid risks).</li> </ul>
Section 3: Definitions	
Change	Rationale
Updated definition for “risk” (3.1.b of revised policy)	<ul style="list-style-type: none"> <li>Includes the upside of risk (i.e. capitalizing on opportunities).</li> <li>Aligns with the update of the ISO 31000 international standard.</li> </ul>
Added definition for “risk appetite” (3.1.c of revised policy)	<ul style="list-style-type: none"> <li>Reinforces the expectation of Council and leaders to articulate, and for staff to take, the appropriate amount of risk in the pursuit of results.</li> <li>Aligns with update of the ISO 31000 international standard.</li> </ul>
Updated definition for “risk management” (3.1.d of revised policy)	<ul style="list-style-type: none"> <li>Replaces the word “mitigating” with “treating”. This reflects that there are multiple ways to manage risk.</li> <li>Removes two unnecessary words “on objectives”.</li> </ul>
Added definition for “risk tolerance” (3.1.e of revised policy)	<ul style="list-style-type: none"> <li>Reinforces the expectation of Council and leaders to articulate, and for staff to take, the appropriate amount of risk in the pursuit of results.</li> <li>Aligns with update of the ISO 31000 international standard.</li> </ul>

Section 4: Applicability	
Change	Rationale
Updated to include City Council (4.1 of revised policy)	<ul style="list-style-type: none"> <li>Reflects that consideration of risk is important for decision making by City Council when engaged in risk management activities as well as by Administration.</li> <li>Clarifies language to reflect that the policy applies to all City of Calgary employees.</li> </ul>
Added a bullet to reflect that the policy should be applied in conjunction with other related policies and standards (4.2 of revised policy)	<ul style="list-style-type: none"> <li>Strengthens the “integrated” component of risk management.</li> <li>Recognizes that this policy should be applied in concert with other documents.</li> </ul>
Section 5: Procedure	
Change	Rationale
Updated responsibility for risk management bullet (5.1.a in revised policy)	<ul style="list-style-type: none"> <li>Moved the risk tolerance portion of the current policy to the responsibility for risk management section.</li> <li>Clarified that risk appetite as well as risk tolerance are part of Council’s role.</li> <li>Added “for the organization” to specify the context of Council and senior management role (i.e. Council and senior management set risk tolerance and appetite for The City of Calgary).</li> </ul>
Updated responsibility for risk management bullet (5.1.b in revised policy)	<ul style="list-style-type: none"> <li>Added “of City employees” to clarify that the City Manager is not responsible for ensuring Council’s compliance now that the applicability of the policy has been broadened.</li> </ul>
Updated responsibility for risk management bullet (5.1.d in revised policy)	<ul style="list-style-type: none"> <li>Reflects the importance of defining and communicating roles and responsibilities for risk management at The City.</li> <li>Removes reference to IRM Procedures to reflect current practices that procedures/guidelines may be contained in multiple areas and documents.</li> <li>Existing risk management procedures/guidelines will be pulled together, standardized, and appropriately updated to align with the updated IRM Policy (2020 June).</li> </ul>
Added reference to employees accepting level of risk defined by the approved level of appetite (5.2.3 in revised policy)	<ul style="list-style-type: none"> <li>Requires employees to accept appropriate level of risk according to approved risk appetite level.</li> </ul>
Moved item on risk tolerance (5.2.4 in revised policy)	<ul style="list-style-type: none"> <li>Enhances clarity and makes a closer connection between risk appetite and tolerance.</li> </ul>

Deleted portion of current policy (5.2.5 in revised policy)	<ul style="list-style-type: none"> <li>Removes focus in current policy on risk mitigation, as it is just one possible risk treatment.</li> </ul>
Replaced section on the Integrated Risk Management Framework to reflect current practices (5.2.6 in revised policy)	<ul style="list-style-type: none"> <li>Since the policy was first adopted in 2004, the standardized framework for managing risk has been improved in the spirit of continuous improvement and in support of better decision-making.</li> </ul>
Removed reference to using common terms in reporting (5.3.1 in current policy)	<ul style="list-style-type: none"> <li>Can be removed from the IRM Policy as it is largely reflected in Council Plain Language Policy (CS014).</li> </ul>
Removed reference to presenting risks in-camera (5.3.1 in current policy)	<ul style="list-style-type: none"> <li>Can be removed from the IRM Policy as it falls under Section 24(1) (a)&amp;(b) of the Freedom of Information and Protection of Privacy Act and is largely reflected in the updated Transparency and Accountability Council Policy (CC039).</li> </ul>
Updated reporting tools and requirements bullet (5.3.2 in revised policy)	<ul style="list-style-type: none"> <li>Reflects the importance of having risk reporting guidance and common tools and that procedures/guidelines may be contained in multiple areas and documents.</li> </ul>



**Audit Resource Management Report to  
Audit Committee  
2020 January 24**

**ISC: UNRESTRICTED  
AC2020-0065**

**External Auditor 2018 Management Letter**

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**EXECUTIVE SUMMARY**

This is an update on identified matters that may be of interest to Administration on the 2018 Audit of the City of Calgary financials. These identified matters were not significant or material in nature.

**ADMINISTRATION RECOMMENDATION:**

That the Audit Committee:

1. Receives this Report and attachments for Information and the Corporate Record; and
2. Recommends that Council receive this Report and attachments for Information pursuant to Audit Committee Bylaw 48M2012, Schedule B, Section 1(f).

**PREVIOUS COUNCIL DIRECTION / POLICY**

The Audit Committee Bylaw 48M2012 states that the Audit Committee, with respect to the External Auditor:

“Receives and reviews the External Auditor’s Management Letter(s), together with any Administration response, and forward, either in full or in summary, to Council for information.”

Schedule “B”, section 1(f)

Council received for information the External Auditor’s 2018 Management Letter, AC2019-0672 at the 2019 July 22 Combined Meeting of Council.

**BACKGROUND**

The External Auditor, Deloitte LLP, presented their External Auditor 2018 Management Letter, AC2019-0672, at the 2019 June 27 Regular Meeting of the Audit Committee. Audit Committee approved the following:

“Requests the External Auditor provide an update regarding the implementation status of the recommendations contained in the 2018 Management Letter (Attachment) at the 2020 January Audit Committee meeting;”

This report is the update on the implementation status of the recommendations as requested in Report AC2019-0672.

**INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Deloitte’s assessment of Administration’s actions, the original findings, recommendations and Administration’s comments, are outlined in the attached letter dated 2020 January 15 from Deloitte LLP.

Audit Committee should consider all recommendations made by the External Auditor and the responses from Administration to see if the recommendations have been appropriately implemented or responded to.

**Audit Resource Management Report to  
Audit Committee  
2020 January 24**

**ISC: UNRESTRICTED  
AC2020-0065**

## **External Auditor 2018 Management Letter**

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### **Stakeholder Engagement, Research and Communication**

The letter is addressed to The City's Chief Financial Officer.

### **Strategic Alignment**

This report and recommendations align with Council priority "A well run-city - Calgary's government is open, responsive, accountable and transparent, delivering excellent services at a fair price. We work with our government partners to ensure we have the tools we need".

### **Social, Environmental, Economic (External)**

Not applicable.

### **Financial Capacity**

#### **Current and Future Operating Budget:**

The Audit Committee budget contains a line item for the external auditor fees and there are no budget implications for this Report.

#### **Current and Future Capital Budget:**

Not applicable.

### **Risk Assessment**

There are potential non-material risks to the City of Calgary if the Deloitte recommendations are not appropriately implemented or responded to by Administration.

#### **REASON FOR RECOMMENDATION:**

The Audit Committee Bylaw 48M2012 requires the Audit Committee to receive and review the External Auditor's Management Letter Reports and to forward to Council for information.

### **ATTACHMENT**

Deloitte LLP 2018 Management Letter Update





Deloitte LLP  
700, 850 2 Street SW  
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Canada

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January 15, 2020

Ms. Carla Male, Chief Financial Officer  
The City of Calgary  
800 MacLeod Trail SE  
Calgary, AB T2P 2M5

Dear Ms. Male:

During the course of our December 31, 2018 audit of the consolidated financial statements of The City of Calgary ("The City"), we identified certain matters that may be of interest to Administration and provided a letter of recommendations to Administration and the Audit Committee on June 27, 2019. These matters were not significant or material in nature in the context of the December 31, 2018 financial statements taken as a whole and did not impact our ability to issue our audit report.

This letter provides an update on these matters based on our interim audit procedures performed through to November 2019, including Administration's response.

The following summarizes the management letter points included in Appendices A and B:

Year Identified	Appendix	Title	Observation/Description	Status
December 31, 2018	A	Review of deferred revenue recognition policies and procedures and training at the business unit level	Administration to review deferred revenue recognition accounting policies and processes and training at the business unit level	New
December 31, 2017	B	Contributions	Contributions are not applied consistently	In progress (carried forward to fiscal 2018)

This communication is prepared solely for the information and use of, as applicable, Administration, the Audit Committee, members of Council and others within The City. Further, this communication is not intended to be and should not be used by anyone other than these specified parties or summarized, quoted from or otherwise referenced in another "document" or "public oral statement". We accept no responsibility to a third party who uses this communication.

We wish to express our appreciation for the courtesies and cooperation extended to our representatives during the course of our work. We would be pleased to discuss and/or clarify the matters included herein with you further should you wish to do so.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte LLP".

Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

## Appendix A - December 31, 2018 year-end observations

### ***1. Review of deferred revenue recognition accounting policies and processes and training at the business unit level***

Year Identified – 2018 (and 2017 carried forward)

#### **Observation:**

The City's accounting and financial reporting processes require significant effort, coordination and communication between Portfolio Finance and the Corporate Financial Reporting ("CFR") team. It is important that there is timely performance of internal controls and processes that ensure complete and accurate accounting at the business unit level for the preparation of accurate annual consolidated financial statements. Due to the decentralized organizational structure of The City, each Portfolio Finance Team is responsible for material complex accounting transactions that have a significant impact on the City's annual consolidated financial statements. Thus, it is important that internal controls are operating effectively at the business unit level. Furthermore, it is important that business unit finance personnel have the appropriate level of in-depth knowledge and technical expertise of financial accounting and reporting matters to ensure timely and accurate financial reporting.

The City restated the 2017 financial statements as a result of a material misstatement identified by Administration for the accounting of revenue relating to capital deposits. Administration advised that the restatement was the result of a delay in review of capital projects financing deficits. Through discussions with business unit personnel, CFR and performance of audit procedures, we understand that there were internal controls that existed around capital project financing deficits, however they were either not designed appropriately or did not work as intended. Following the restatement, we do note that Administration has developed and implemented new controls and procedures to prevent/detect future misstatements relating to capital deposits (these will be subject to audit testing during the fiscal 2019 audit).

#### **Recommendation:**

While the restatement was related to certain business units, our recommendations below apply to all business units which are responsible for material, complex deferred revenue transactions:

#### **Review of revenue recognition policies and processes**

1. As the restatement related to accounting for capital deposits, reserves and revenue, we recommend Administration perform a review of revenue recognition policies and procedures to ensure internal controls designed to prevent and detect misstatements are operating effectively and there is compliance with internal policies and related accounting guidance.
2. As the City formally prepares consolidated financial statements on an annual basis, operational activity during the last three months of the fiscal year is high. We recommend that Administration perform a review of the annual processes that impacts revenue recognition to ensure these are being completed in a timely manner and any gaps in internal controls are rectified.

#### **Training at the Business Unit level**

3. We understand that due to the organizational structure of finance personnel roles, several individuals could be responsible for performing part of the accounting of a full transaction. As such, we recommend the following:

- All individuals responsible for the accounting of a full transaction for capital deposits or reserves are included in the training sessions to understand the full accounting cycle and implication on the financial statements.
- Training continues to be held on a regular basis (versus one time) during the year to ensure accounting processes and procedures are fully understood at the business unit level.
- Training be conducted on a timely basis for individuals new to the role due to staffing changes.

### **Recommendations carried forward from fiscal 2017, MLP #1:**

The December 31, 2017 management letter included recommendations relating to capital deposits and Administration's response in January 2019 was as follows: *"During 2018, Administration reviewed current processes and procedures, to ensure consistent application and has developed a work plan for 2019 using a risk-based approach to ensure there is consistency and full compliance with the accounting guidance"*. The recommendations from 2017 have been carried forward as part of the 2018 recommendation given that both our 2017 and 2018 recommendations relate to capital deposits:

4. The business unit conduct a review of the policy and processes relating to contributions with the objective to ensure consistency in the processes and policies utilized to account for contributions and compliance with the accounting guidance (PS 3100, *Restricted Assets and Revenues*, paragraphs 7 to 11);
5. All contributions have written agreements; and
6. All contributions are used in accordance with the stipulations as per the original agreements.

### **Administration's response:**

Administration agrees with the recommendations. To strengthen financial reporting throughout The City a work plan will be developed in 2019 and the following actions will be considered:

1. Administration will perform a review of revenue recognition accounting policies and processes to ensure internal controls are designed to prevent and detect misstatements and they are operating effectively and in compliance with internal policies and related accounting guidance.
2. Administration will perform a review of the annual processes that impact revenue recognition to ensure these are being completed in a timely manner.
3. Administration will work to develop training programs for new and existing staff to ensure the appropriate level of knowledge and technical expertise of financial accounting and reporting matters to ensure timely and accurate financial reporting.
4. Addressed through action #1.
5. Administration will ensure that processes are in place for having written agreements for all contributions.
6. Addressed through action #1 as this is part of revenue recognition standards.

### **Auditor's update January 2020 (based on 2019 interim audit procedures):**

We held discussions with Administration and reviewed the work plan implemented by Administration in fiscal 2019. We note that during fiscal 2019, Administration has implemented processes to address this recommendation as indicated in Administration's response below. Through these discussions and review of the work plan, we understand that the work plan was partially implemented in fiscal 2019 and will continue to be implemented through fiscal 2020. During our year-end fieldwork, we will apply audit procedures as applicable (relating both to internal controls and detailed testing as well as new processes implemented in 2019) and will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2019 year-end audit. As Administration's work plan will be implemented through fiscal 2020 we will continue to work with Administration in addressing this recommendation in the next fiscal year.

During fiscal 2019, we have also expanded our testing on the offsite levy balance, which is part of the capital deposits balances. We will complete our testing in March 2020 and report back to Administration and the Audit Committee.

**Administration's response January 2020 (based on November 2019 interim audit procedures):**

Administration continues to agree with these recommendations. During 2019, Corporate Financial Reporting developed a work plan to address the recommendations and started work to mitigate the risk of revenue recognition misstatements going forward. Actions taken during 2019 include:

- a. Leveraged the Hyperion tool to import monthly PeopleSoft actual expenditures and financing entries and refresh the carry-forward balances from all approved capital budgets. BU Finance provides a copy of the carry-forward form three times per year indicating that analysis has been performed and financing entries, where appropriate have been recorded. This ensures that funding for capital projects are recognized in the correct period. This detective control improvement partially addresses recommendations #1, 2 and 4.
- b. Using a risk-based approach, business units were analyzed and prioritized based on two factors: their relative deferred revenue balance and prior year restatement amounts. Corporate Financial Reporting worked with Portfolio Finance and Portfolio and Strategy in 2019 to understand historical processes and procedures, identified gaps in process and procedures and developed new controls to address these gaps. This work will continue in 2020 to ensure that all business units' processes and procedures are reviewed to mitigate the risk of revenue recognition misstatement going forward. This work partially addresses recommendations #1, 2, 5 and 6.
- c. Corporate Financial Reporting held sessions in May, September and December which included information about the new detective control for financing deficits. This provided Portfolio Finance with an understanding of the new control, its purpose and how it can detect issues pertaining to the recognition of funding. This work partially addresses recommendation #3.
- d. During 2019, Operations developed new processes and requirements to ensure that Development Agreements are signed on a timely basis. Starting in 2020, a Developer can only receive a Development Agreement if they have agreed to the "Terms and Conditions" (also known as the Master Development Agreement) between the City and the Developer. The Master Agreement discusses the administrative duties, offsite levy rates, application for certificates, maintenance periods and general provisions. The Master Agreement also details the obligations that the City requires of all land developers to follow. This work addresses recommendation #5.
- e. Corporate Financial Reporting, Portfolio Finance and Portfolio and Strategy have been limited by resource constraints in 2019 but are committed to the review of processes and procedures including internal controls to ensure that revenue recognition is occurring in a timely manner.

## Appendix B - December 31, 2017 year-end observations – Update for 2018 year-end

### 1. Contributions

Year Identified - 2017

#### Observation:

During our testing of capital deposits, one of 22 samples tested relating to revenue recognized in fiscal 2017 related to expenses, which had been incurred in fiscal 2015. We discussed this specific sample with the business unit, and noted that the business unit receives contributions from various external parties, and that this contribution was recognized as revenue in 2017 for expenses incurred in 2015. Based on discussions with business unit operational and finance personnel, contributions received can be for an entire project or for a portion of the project. At the time the costs are incurred by The City, the specific contributions are applied directly against the specified project; if not utilized for the specified project, the contributions are refunded. We also note that there can be written or verbal agreements between business units and external parties relating to contributions received by The City.

#### Recommendation:

We recommend:

- a. The business unit conducts a review of the policy and processes relating to contributions with the objective to ensure consistency in the processes and policies utilized to account for contributions and compliance with the accounting guidance (PS 3100, *Restricted Assets and Revenues*, paragraphs 7 to 11);
- b. All contributions have written agreements; and
- c. All contributions are used in accordance with the stipulations as per the original agreements.

#### Administration's response:

Administration agrees with Deloitte's recommendations with consideration that this was an isolated sample. In 2018, Administration will review current processes and procedures, as part of The City's ongoing review of its agreements, to identify any gaps and ensure consistent processes and procedures. In addition, Administration will monitor and review transactions using a risk-based approach to ensure that there is consistency and full compliance with the accounting guidance.

#### Administration update (January 2019):

Administration continues to agree with these recommendations with consideration that this was an isolated sample. During 2018, Administration reviewed current processes and procedures, to ensure consistent application and has developed a work plan for 2019 using a risk-based approach to ensure there is consistency and full compliance with the accounting guidance.

#### Auditor's response (based on November 2018 interim audit procedures):

We held discussions with Administration, and we understand that Administration has implemented processes to address this recommendation. Through these discussions, it was noted that a work plan has been developed, which will be implemented through fiscal 2019. We will review Administration's work plan during our year-end fieldwork, apply audit procedures as applicable and will report any deficiencies or further recommendations to Administration and the Audit Committee upon completion of the 2018 year-end audit. As Administration's work plan will be implemented through fiscal 2019, we will continue to work with Administration in addressing this recommendation in the next fiscal year.

**Auditor's update (based on 2018 year-end audit procedures):**

Through discussions held with Administration as well as through our audit procedures applied during the year-end audit fieldwork, it was noted that the business units performed a review of the capital project expenditures and the available funding for these specific projects, however, this was not performed on a timely basis. This resulted in a restatement of the 2017 financial statements as revenue had not been applied in the correct period. As Administration's work plan is still being implemented through fiscal 2019, this recommendation has been carried forward to fiscal 2018. Please refer to 2018 recommendation #1.

**2020 JANUARY 24**

**AUDIT COMMITTEE**

**\*\*\* LATER DISTRIBUTION NOTICE\*\*\***

Please be advised that the following Report will be made available at a later date:

7.4      Audit Committee 2020 Work Plan, AC2020-0079





## City Auditor's Office 4th Quarter 2019 Report

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### EXECUTIVE SUMMARY

This report presents a summary of the activity of the City Auditor's Office during the period October 1, 2019 to December 31, 2019.

#### RECOMMENDATIONS:

That with respect to the Report AC2020-0118, the following be approved:

1. That the Audit Committee receive this Report for the Corporate Record; and
2. That the Audit Committee recommend that Council receive this Report for the Corporate Record.

### PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended). Schedule C of Bylaw 48M2012 (as amended) states that Audit Committee "reviews and forwards to Council for information, the City Auditor's Office quarterly and annual status reports".

Under the City Auditor's Office Charter (AC2016-0247 Attachment 2), the City Auditor presents quarterly reports to Audit Committee summarizing the status of deliverables against the approved Audit Plan. The City Auditor's Office 2019-2020 Audit Plan was approved on September 18, 2018.

### BACKGROUND

Quarterly reports are intended to support Audit Committee's oversight of the City Auditor's Office. To support this oversight, the 4<sup>th</sup> Quarter report is divided into three sections:

- Summary of performance measures and budget spend during the past quarter;
- Summary of our current audit progress status against the approved Audit Plan; and
- Details on outstanding audit recommendations from the quarterly follow-up process.

During 4th Quarter 2019, the City Auditor's Office:

- Finalized two audits, completed the planning stage on four audits, and completed the fieldwork on three audits.
- Reviewed 27 recommendations and closed 22 recommendations (19 implemented as originally planned). Five recommendations required additional time and are in-progress.
- Received 34 new whistle-blower reports and closed 9 investigations.
- Provided advisory support to the Infrastructure Calgary Steering Committee, data analytics to support a Business Unit project, and advisory support to a Business Unit efficiency initiative.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

### Stakeholder Engagement, Research and Communication

N/A

**City Auditor's Office 4th Quarter 2019 Report**

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**Strategic Alignment**

The City Auditor's Office quarterly reports provide Audit Committee and Council with information to support their oversight responsibility of the City Auditor's Office. The activities of the City Auditor's Office assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

**Social, Environmental, Economic (External)**

N/A

**Financial Capacity**

**Current and Future Operating Budget:**

N/A

**Current and Future Capital Budget:**

N/A

**Risk Assessment**

The activities of the City Auditor's Office, including the Whistle-blower Program, serve to promote accountability, mitigate risk, and support an effective governance structure.

**REASON FOR RECOMMENDATIONS:**

To comply with Bylaw 48M2012 (as amended) which states: Audit Committee reviews the City Auditor's Office quarterly and annual status reports and forwards these to Council for information.

**ATTACHMENT**

City Auditor's Office 4<sup>th</sup> Quarter 2019 Report - AC2020-0118 ATT



**Calgary**

City Auditor's Office

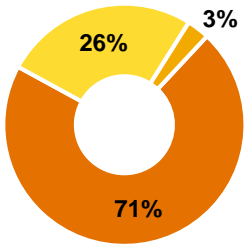
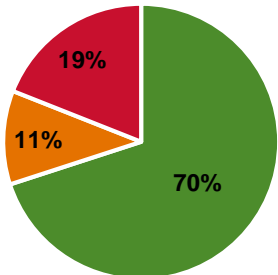
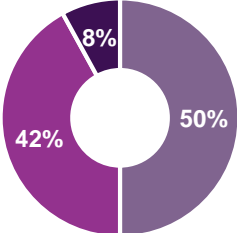
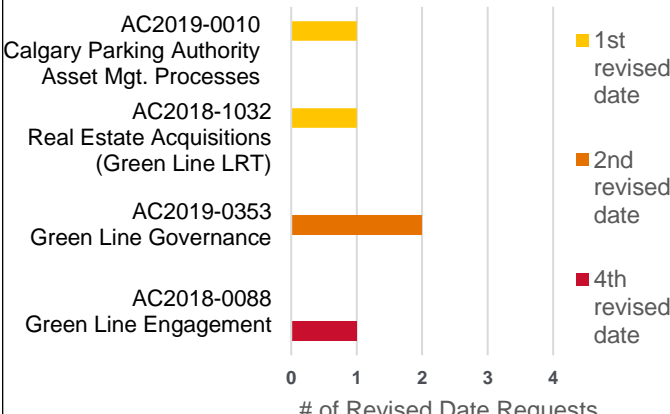
# **4th Quarter 2019 Report October 1, 2019 – December 31, 2019**

**January 24, 2020**

**Katharine Palmer  
City Auditor**

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## 1. Status Update

Key Performance Indicators					Budget Spend			
Measure Area	Performance Indicator	Target	Q3 2019	Q4 2019	2019 Annual Budget		Actual to Date	Variance
Efficiency	On Track to Annual Plan	Q3-85% Q4-95%	68%	96%	Salary	2,684	2,585	(99)
Effectiveness	Timely Implementation of Audit Rec.	65%	75%	75%	Tools & Technology	120	108	(12)
Quality	Client Satisfaction	85%	99%	N/A*	Training	52	56	4
Staff	Training Plan Achieved	90%	95%	83%	Contracted Work	0	10	10
					Other	78	78	0
					Total	2,934	2,837	(97)
*No survey responses received in this quarter.								
Whistle-blower Program Activity					Recommendation Follow-up			
<b>New Reports (Q4 – 2019)</b> <b>34</b>					<b>Results of 27 Recommendations Due in Q4 (Q3 - 21)</b>			
 <ul style="list-style-type: none"> <li>24 Employee</li> <li>9 Non-employee</li> <li>1 Undetermined</li> </ul>					 <ul style="list-style-type: none"> <li>19 Implemented (Q3 - 81%)</li> <li>3 Closed - Alternative Mitigation (Q3 - 0%)</li> <li>5 Required Additional Time (Q3 - 19%)</li> </ul>			
<b>In-Progress Investigations (Q4 – 2019)</b> <b>12</b>					<b>Outstanding Recommendations # of Revised Date Requests</b>			
 <ul style="list-style-type: none"> <li>6 City Auditor's Office</li> <li>5 WBP Triage Partners</li> <li>1 Management</li> </ul>					 <ul style="list-style-type: none"> <li>1st revised date</li> <li>2nd revised date</li> <li>4th revised date</li> </ul>			
<b>Closed Investigations (Q4 – 2019)</b> <b>9</b>								
<b>Recommendation Categories*</b> <ul style="list-style-type: none"> <li>1 Health, Safety and Environment</li> <li>11 HR, Diversity and Respectful Workplace</li> </ul>								
*Recommendations/Corrective Actions are published at <a href="http://www.calgary.ca/whistle">www.calgary.ca/whistle</a>								

## 2018/2019 Annual Audit Plan – Status as at December 31, 2019

2018/2019 Annual Audit Plan				
#	Title	Description	Report Target	Status
<b>2018 Carry Forward</b>				
1	Calgary Parking Authority	An operational audit of Calgary Parking Authority's asset management processes for the parkade portfolio that they own and operate.	Q1, 2019	Reported 01/31/19
2	Planning Application Review and Approval Process  (Previous Title: Community Planning/Calgary Approvals)	An operational audit to assess the effectiveness of controls and risk mitigation processes to deliver quality, fair and timely decisions that support development realization.	Q1, 2019	Reported 04/23/19
3	Calgary Community Standards – Livery Transport Services	An operational audit assessing the effectiveness of internal controls that support public and driver safety.	Q1, 2019	Reported 03/22/19
4	Annual Control Environment Assessment	An operational audit assessing the design effectiveness of the Annual Control Environment Assessment and assessing the operating effectiveness of control activities which support COSO Principle 3: Establishes Structure, Authority and Responsibility.	Q1, 2019	Reported 02/28/19
5	Emergency Management	An operational audit of emergency preparedness and related business continuity plans.	Q2, 2019	Reported 06/27/19
<b>2019 Audits</b>				
1	Green Line – Governance	An operational audit of Green Line Project organization/governance framework.  Citizen Priority – A City that Moves	Q2, 2019	Reported 03/22/19

2018/2019 Annual Audit Plan				
#	Title	Description	Report Target	Status
2	Off-site Levy Administration	An operational/IT audit of the effectiveness of City processes (including calculation practices) and system controls that support capital cost recovery and use of collected levies governed by the 2016 Off-site Levy Bylaw.  Citizen Priority – A Well-Run City	Q3, 2019	Reported 10/31/19
3	Warehouse/Inventory Systems	An operational audit of warehouse and inventory systems supporting significant City assets.  Citizen Priority – A Well-Run City	Q3, 2019	Reported 09/06/19
4	Pensions Compliance	A compliance audit as required by Alberta Pension Services (APS) providing independent triennial assurance over three City pension plans (LAPP, LAPP Fire, and SFPP).  Citizen Priority – A Well-Run City	Q2, 2019	Reported to APS 06/27/19
5	Waste and Recycling Services – Cart Contamination Prevention	An operational audit of the effectiveness of contamination prevention activities supporting the Waste and Recycling Services cart programs.  Citizen Priority – A Healthy and Green City	Q3, 2019	Reported 12/06/19
6	Budget Management	An operational audit of processes and reporting tools available to DeptID owners to support effective management of their operating budget.  Citizen Priority – A Well-Run City	Q4, 2019	Reporting
7	Corporate Issue Management Program	An operational audit on the maturity of The City's Corporate Issue Management Program.  Citizen Priority – A Well-Run City	Q4, 2019	Reporting

2018/2019 Annual Audit Plan				
#	Title	Description	Report Target	Status
8	Calgary Fire - Inspections	An operational audit of the efficiency and effectiveness of Calgary Fire's inspection activities.  Citizen Priority – A City of Safe and Inspiring Neighbourhoods	Q1, 2020	Fieldwork
9	Roads – Pothole Remediation	An operational audit of the efficiency and effectiveness of pothole remediation.  Citizen Priority – A City that Moves	Q1, 2020	Fieldwork
10	Elections Follow-up	A follow-up audit to review action plans implemented in response to the 2017 Municipal Election Review (AC2018-0852).  Citizen Priority – A Well-Run City	Q2, 2020	Reporting
2020 Audit Plan Brought Forward				
1	Opportunity Calgary Investment Fund	An operational audit of Opportunity Calgary Investment Fund's grant administration.  Citizen Priority – A Prosperous City	Q2, 2020	Fieldwork



## Q4 2019 Recommendation Follow-up– In-Progress Action Plans

Q4 2019 ACTION PLANS REQUIRING ADDITIONAL TIME TO IMPLEMENT			
Report # & Title	Revision #	New Revised Date	Recommendation
AC2018-0088  Green Line Engagement	4	March 31, 2020	#1- The Green Line Project Manager include a communications and engagement budget in the approved annual engagement plans, based on cost estimates supported by activity work plans, and establish processes to support regular tracking, reporting, and review of all communication and engagement costs and forecasts.
AC2019-0353  Green Line Governance	2	March 31, 2020	#1- The Acting Managing Director of Green Line implement an updated Project governance framework, including defined and communicated roles, responsibilities and accountabilities, accompanying project organization structure, documented decision-making framework, and defined risk and issues management framework that supports achievement of Project objectives.
AC2019-0353  Green Line Governance	2	March 31, 2020	#2- Post project governance framework implementation, Acting Managing Director of Green Line lead a reassessment of Project risk to identify underlying or previously unknown risks, and incorporate into on-going risk management.
AC2018-1032  Real Estate Acquisitions (Green Line LRT)	1	March 31, 2020	#4- The Director, Real Estate & Development Services review and update the Sales, Acquisitions and Leases Environmental (S.A.L.E.) Policy, including responsibilities for large projects and reflecting an up-to-date City organization structure.
AC2019-0010  Calgary Parking Authority Asset Management Processes Audit	1	April 30, 2020	#2- The General Manager, develop an Asset Management Strategy that aligns asset management activities to organizational objectives and is integrated into areas with a role in asset management activities.



Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0023

## Annual Control Environment Assessment - Administration Update and Recommendation

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### EXECUTIVE SUMMARY

As part of the City Auditor's Office audit of the Annual Control Environment Assessment (AC2019-0214), Administration committed to consult with members of the Audit Committee to identify potential improvements to the Annual Control Environment Assessment process and reporting. Based on consultations held, two options were identified: 1) Enhance the current process and reporting; or 2) Cease the current Annual Control Environment Assessment and develop and implement a new process for control assessment that identifies key internal controls over financial reporting and documents, tests, and reports on these controls at a demonstrable level. Through further analysis of these two options, Administration is recommending Option 2.

### ADMINISTRATION RECOMMENDATION:

That the Audit Committee direct Administration to:

1. Cease the current Annual Control Environment Assessment effective for the fiscal year end December 31, 2019, and develop and implement a project plan to identify, document, and test key internal controls over financial reporting at a demonstrable level as per the timelines set out in Attachment 2 for Option 2;
2. Provide annual updates to the Audit Committee on the status of the implementation of Option 2; and
3. Provide a report to the Audit Committee no later than Q3 2022 on the results of the testing of key internal controls over financial reporting for the 2021 year-end, with annual reporting thereafter.

### PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee's Terms of Reference (included in Bylaw 48M2012) states that the Committee is responsible for overseeing the integrity of The City's system of internal controls. The Committee is authorized to "review reports from Administration about The City's internal control systems, including technology, security and financial controls, and assess whether they are operating effectively."

On 2019 February 28, the City Auditor's Office presented the results of its audit of the Annual Control Environment Assessment (AC2019-0214), including three recommendations to improve its effectiveness. In response, Administration committed to consult with members of the Audit Committee and prepare a report to provide recommended alternatives discussing potential changes to a) the appropriate scope of City activities to be covered by the Assessment, and b) the level and detail desired in the disclosure of controls that affect those activities.

The most recent Annual Control Environment Assessment and Management Representations Update (AC2019-0529) was presented and received for information at the 2019 April 23 Audit Committee meeting.

Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0023

## Annual Control Environment Assessment - Administration Update and Recommendation

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### BACKGROUND

Administration, through the Finance Business Unit, has provided an Annual Control Environment Assessment and Management Representation Update since 2004. In 2015, The City adopted the most recent (2013) revision of the COSO Internal Control – Integrated Framework.

Directors and Business Unit Finance Managers self-assess whether the internal controls that they are accountable for are present and functioning; these assessments are used to determine the effectiveness of the overall system of internal controls over The City's financial reporting. Since 2004, Administration has reported that the overall control environment over The City's financial reporting is effective. Administration is committed to continuous improvement.

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

Over the course of 2019, Administration held multiple consultations with members of the Audit Committee. These consultations included: an informational session held with all members of Audit Committee, individual meetings with all citizen members and the Chair of the Committee, small group meetings with citizen members, a meeting with the City Auditor's Office, and a briefing memo circulated to the Chair of the Committee and all citizen members to seek direction on proposed options. The feedback we received was used to develop two options, and ultimately contributed to Administration's recommendation. Refer to Attachment 1 for a summary of feedback received.

Consultations led to the development of two options for the Annual Control Environment Assessment Report, as follows:

1. Revise the Annual Control Environment Assessment to include optimized form and content, and a multi-tiered report format that would provide summary-level and additional details on controls of focus based on Corporate requirements selected through Administrative Leadership Team (ALT) and Audit Committee guidance; or
2. Cease the current Annual Control Environment Assessment and develop and implement a new process for control assessment that identifies key internal controls over financial reporting and documents, tests, and reports on these controls at a demonstrable level (*Recommended by Administration*).

### Option 1

This option maintains the general scope of the current Annual Control Environment Assessment and focuses on addressing identified process and reporting improvements. Enhancements include:

- Integrating the process more closely with other City activities, such as the Corporate Risk Register;
- Providing additional disclosure over the methodology used to generate the report;
- Providing further review to controls of focus based on Corporate requirements selected through ALT and Audit Committee guidance; and

Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0023

## **Annual Control Environment Assessment - Administration Update and Recommendation**

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- Changing the way in which Administration and the Audit Committee interact with this report through the addition of an informational session and revised reporting timelines, from April to mid-year, to provide additional time for consultations with the ALT, control owners, and Audit Committee.

This option also improves reporting by providing a three-tiered reporting format which includes an executive summary, an overview of The City's control environment, and additional details on controls of focus.

Option 1 does not focus on demonstrable controls and does not provide for testing of internal controls due to entity-level report scope and resource constraints.

No additional resources will be required to implement these enhancements; however, this will result in the need to re-prioritize other work. These enhancements could be substantially implemented for the 2020 Annual Control Environment Assessment, assuming a revised reporting timeline of mid-year.

Refer to Attachment 2 for further details.

### **Option 2**

This option provides a focused scope and therefore increased assurance to Administration and members of the Audit Committee on the design and effectiveness of internal controls over financial reporting at the demonstrable level. This option includes risk-based identification of key internal controls over financial reporting and controls testing, with the results used to drive continuous improvement.

There are three phases for this option:

1. Phase One (2020): Obtain stakeholder input, develop project plan, scope, template and tools
2. Phase Two (2021): Identify high-risk financial statement accounts and key controls over financial reporting using a risk-based approach
3. Phase Three (2022): Test key controls, report results by end of Q3, and develop plans to address any deficiencies
4. Ongoing (2023 and onwards): Follow-up and continuous improvement

Under this approach, Administration would only focus on financial reporting controls under Finance's control ownership and no other elements of the COSO Framework (i.e. no entity-level controls). This option would result in a multi-year project to reach the testing and reporting phase with the first report provided to Audit Committee no later than Q3 2022, for the 2021 year-end. No additional resources would be required for this option as resources would be redirected from the existing Annual Control Environment Assessment process to this new process.

Refer to Attachment 2 for further details.

Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0023

## **Annual Control Environment Assessment - Administration Update and Recommendation**

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### **Recommendation**

Based on the consultations held and consideration on how to maximize governance and control benefits of the Annual Control Environment Assessment process and reporting, Administration recommends Option 2 for the following reasons:

- The City Auditor's Office and members of the Audit Committee have expressed a desire to increase assurance for control design and effectiveness at the demonstrable control level;
- Option 2 provides this increased assurance by allowing for the identification and testing of internal controls over financial reporting at the demonstrable level; and
- The results of controls testing would enable Administration to focus on continuous improvement and monitoring of Finance's processes and internal controls, thereby providing more direct value than Option 1.

### **Stakeholder Engagement, Research and Communication**

Seven meetings in total were held with members of the Audit Committee and of the City Auditor's Office. In addition, a briefing memo was circulated to the Chair and citizen members of the Audit Committee to seek direction on proposed options. All citizen members responded to the briefing memo and are in agreement with Option 2.

### **Strategic Alignment**

Effective internal controls over financial reporting, along with the annual Management Representations, align with Council's priority of a well-run city.

### **Social, Environmental, Economic (External)**

No implications have been identified with this report.

### **Financial Capacity**

#### ***Current and Future Operating Budget:***

There are no operating budget implications as a result of this report as existing resources will be redirected and the workplan prioritized accordingly.

#### ***Current and Future Capital Budget:***

There are no capital budget implications as a result of this report.

### **Risk Assessment**

The City's credit rating and reputation could be at risk if a significant breakdown in internal controls impacted The City's ability to achieve its financial reporting objectives. The presence of an appropriate governance structure allows management to provide reasonable, but not absolute, assurance of The City's ability to achieve its objectives.

Administration believes that the direction recommended in this report (Option 2) will enhance The City's internal controls over financial reporting. Under this approach, internal resources will

Chief Financial Officer's Report to  
Audit Committee  
2020 January 24

ISC: UNRESTRICTED  
AC2020-0023

### **Annual Control Environment Assessment - Administration Update and Recommendation**

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provide control expertise and testing at a more detailed level (demonstrable level), thereby providing better risk management. While maintaining the status quo would not be associated with any new risks, it would result in the loss of these potential improvements.

#### **REASON(S) FOR RECOMMENDATION(S):**

Assessing and reporting on the design and effectiveness of The City's internal controls over financial reporting is a component of overall corporate governance. Option 2 provides key control identification, documentation, testing, and reporting at the demonstrable level thereby enhancing governance and value-add to The City.

#### **ATTACHMENT(S)**

1. Attachment 1 - Summary of Feedback: Annual Control Environment Assessment
2. Attachment 2 - Proposed Options: Annual Control Environment Assessment





## **SUMMARY OF FEEDBACK: ANNUAL CONTROL ENVIRONMENT ASSESSMENT**

Consultation was initiated to identify potential changes to the scope of activities covered by the Assessment and the level and degree of detail desired in the disclosure of controls relating to those activities.

Administration held the following consultations: an informational session held with all members of Audit Committee, individual meetings with all citizen members and the Chair of the Committee, small group meetings with citizen members, and a briefing memo circulated to the Chair of the Committee and all citizen members to seek direction on proposed options. The feedback we received was used to develop two options, and ultimately contributed to Administration's recommendation.

### **Common Themes – Consensus**

- The report should be made easier to use and read by simplifying the reporting format and including an executive summary.
- The current report contains more information than can easily be absorbed.
- It is essential that the report continues to demonstrate Administration's competence and control ownership.
- It is appropriate to focus on controls over financial activities.
- The report should not be 'single-use'; Administration should use the process to drive continuous improvement and enhance risk management.
- The report should integrate with other activities at The City.

### **Selected Individual Feedback**

- The report should be changed to increase the amount of assurance given for control design and effectiveness, both in terms of individual controls and in terms of The City's control environment as a whole.
- It may be efficient to focus only on specific control principles, such as the first three or five principles identified under the COSO Framework.
- The report may benefit from areas other than Finance taking additional ownership.
- An increase in summarization of controls is acceptable.
- If too much focus is given on some aspects of control, the focus of the report may be lost.
- Additional information around how the report is designed is desirable.
- Non-financial control owners need to understand the importance of the report.
- There should be increased effort toward showing preventive controls.
- The report should be designed to allow the Audit Committee to act as a change agent.
- Different audiences may require different levels of information; at the moment, the report only provides one level of information.
- The Audit Committee may wish to hear directly from a control owner.

### **Briefing Memo Feedback**

- All citizen members responded to the briefing memo and are in agreement with Option 2.



## PROPOSED OPTIONS: ANNUAL CONTROL ENVIRONMENT ASSESSMENT

### Option 1

Revise the Annual Control Environment Assessment to include optimized form and content, and a multi-tiered report format that would provide summary-level and additional details on controls of focus based on Corporate requirements selected through Administrative Leadership Team (ALT) and Audit Committee guidance.

Enhancements include the following:

#### 1. Closer integration with City activities

- a. Consultations twice per year with the Administrative Leadership Team (ALT) to discuss risk areas to which the report should provide additional focus.
- b. Exploration of links to the Corporate Risk Register.
- c. Periodic meetings between Internal Control staff and the Portfolio Finance Managers to identify and review key controls.

#### 2. Improved methodology and disclosures

- a. Report to include additional details surrounding the existing “self-assessment” methodology to clarify user understanding.
- b. Control owners will be required to provide formal, director-level certification and additional rationale for all assessments.

#### 3. Further review provided to controls of focus

- a. Controls of focus to be selected based on ALT and Audit Committee guidance.
- b. If this option is selected, the initial controls of focus are anticipated to be COSO Principles 1-3 (*organizational commitment to integrity and ethical values, board of directors’ independence and oversight of the development and performance of internal control, and structures, reporting lines and appropriate authorities and responsibilities in the pursuit of objectives*).

#### 4. Changes to ways in which Administration and the Audit Committee interact

- a. Change timing for the report from April to mid-year to provide additional time for consultations with the ALT, control owners, and Audit Committee.
- b. Provide informational sessions to members of the Audit Committee prior to the report’s presentation, including introducing select control owners and providing an operational view and perspective on The City’s control environment.

#### 5. Layered reporting format, with optimized form and content

- a. Three-tier reporting structure: an executive summary, a control environment overview, and additional details on controls of focus.
- b. Optimized form and content, including a greater focus on key controls, rationalization of some details to appendices, increased font size, and a change from landscape to portrait report layout.

**Timelines and Resources:** These enhancements could be substantially implemented for the 2020 report Annual Control Environment Assessment, assuming a mid-year reporting timeline instead of April. No additional resources will be required; however, the additional work required to improve this report will result in a need to re-prioritize other work.

## Option 2 (*Recommended*)

Cease the current Annual Control Environment Assessment and develop and implement a new process for control assessment that identifies key internal controls over financial reporting and documents, tests, and reports on these controls at a demonstrable level.

This option creates a new way for Administration to assess its internal controls over financial reporting. Rather than providing a high-level overview of internal controls, Administration will focus its efforts on documenting, analysing and testing demonstrable key controls, identified through an annual risk-based approach.

This approach includes three phases, as follows:

- 1. Phase One (2020): Obtain stakeholder input, develop project plan, scope, template and tools**
  - a. Obtain stakeholder input on the scope of the project from the Finance Management Team, the City Treasurer/Director Finance, and the Chief Financial Officer.
  - b. Develop project plan, scope, templates and tools for the new internal control assessment process.
- 2. Phase Two (2021): Identify high-risk financial statement accounts and key controls over financial reporting using a risk-based approach**
  - a. Identify high-risk financial statement accounts using a risk assessment based on quantitative (materiality) and qualitative factors (complexity, estimates, external sensitivity, etc.).
  - b. Review high-risk accounts, identifying their financial statement assertions and relevant business processes.
  - c. Work with control and process owners to identify and document key controls over financial reporting for high-risk accounts and associated business processes.
  - d. Consult Financial Reporting to ensure that any relevant items from the annual external audit Management Letters Points are identified and considered for this process.
- 3. Phase Three (2022): Test key controls, report results by end of Q3, and develop plans to address any deficiencies**
  - a. Develop internal control testing approach, including sampling approaches and how frequently controls are to be tested (i.e. yearly vs. periodic/rotational).
  - b. Identify resources available for testing. Conduct tests and evaluate results.
  - c. Develop plans, in conjunction with control owners, to address identified internal control deficiencies.
  - d. Assess findings from testing of key controls and prepare report for Audit Committee by end of Q3 2022.
- 4. Ongoing (2023 and onwards): Follow-up and continuous improvement**
  - a. Continue to produce annual reports for internal stakeholders and the Audit Committee.
  - b. Work with control owners to rectify any internal control deficiencies and implement opportunities for improvement.

**Timelines and Resources:** Option 2 would result in a multi-year project to reach the testing and reporting phase with the first report provided to the Audit Committee no later than Q3 2022, for the 2021 year-end. The resource assumption is 0.75 FTE in Finance on an ongoing basis to coordinate, lead, and report on this initiative. Resources would be re-allocated from the current Annual Control Environment Assessment process, therefore no additional resources are required.

## Key Difference Summary

This table contrasts the key differences between the two options.

Included in Annual Control Environment Assessment	Attributes	Option 1	Option 2
Entity-level controls	High-level overview of controls	✓	
Multiple Business Unit Involvement	Self-assessment methodology	✓	
Demonstrable-level controls	More focused scope Single control owners More detailed level controls		✓
Control testing	Increased assurance		✓
More focus on Finance's processes, internal controls, and continuous improvement	More direct value for Finance and The City		✓