



AGENDA

AUDIT COMMITTEE

July 23, 2020, 1:00 PM
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

SPECIAL NOTES:

*Public are encouraged to follow Council and Committee meetings using the live stream
<http://video.isilive.ca/calgary/live.html>
Members will be participating remotely.*

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, 2020 June 11
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 City Manager's Principal Corporate Risk Update (Verbal), AC2020-0727

7.2 Integrated Risk Management Mid-Year Update (Including Information Technology), AC2020-0711

Attachment 5 held confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

Review By: 2025 July 30

7.3 Opportunity Calgary Investment Fund Administration Audit, AC2020-0764

7.4 Calgary Fire - Inspections Audit, AC2020-0621

7.5 City Auditor's Office 2nd Quarter 2020 Report, AC2020-0824

7.6 City Auditor's Office Bylaw, AC2020-0825

7.7 Proposed New Audit Committee Bylaw, AC2020-0753

7.8 External Auditor 2020 Audit Service Plan and Fees, AC2020-0733

7.9 Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report, AC2020-0506

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), AC2020-0729

Held confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

- 10.1.2 External Auditor (Verbal), AC2020-0730
Held confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.
- 10.1.3 City Auditor (Verbal), AC2020-0731
Held confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.
- 10.1.4 External Auditor 2019 – 2020 Performance Assessment, AC2020-0734
Report and Attachments held 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*.

Review By: 2035 July 23

10.2 URGENT BUSINESS

11. ADJOURNMENT



**MINUTES
AUDIT COMMITTEE**

**June 11, 2020, 9:30 AM
IN THE COUNCIL CHAMBER**

PRESENT: Councillor E. Woolley, Chair
Councillor J. Farkas, Vice-Chair (Remote Participation)
Councillor D. Colley-Urquhart (Remote Participation)
Councillor J. Gondek (Remote Participation)
Citizen Representative L. Caltagirone
Citizen Representative M. Dalton (Remote Participation)
Citizen Representative M. Lambert (Remote Participation)

ALSO PRESENT: City Auditor K. Palmer
Chief Financial Officer, C. Male
Executive Assistant C. Smillie
Deputy City Clerk K. Martin
Legislative Advisor A. de Groot

1. CALL TO ORDER

Councillor Woolley called the Meeting to order at 9:32 a.m.

ROLL CALL

Councillor Woolley, Councillor Farkas, Councillor Gondek, Councillor Colley-Urquhart, Citizen Representative L. Caltagirone, Citizen Representative M. Dalton, Citizen Representative M. Lambert

2. OPENING REMARKS

Councillor Woolley provided opening remarks.

3. CONFIRMATION OF AGENDA

Moved by Citizen Representative Caltagirone

That the Agenda for the 2020 June 11 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

Moved by Citizen Representative Caltagirone

4.1 Minutes of the Regular Meeting of the Audit Committee, 2020 April 20

Moved by Citizen Representative Caltagirone

That the Minutes of the 2020 April 20 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

5. CONSENT AGENDA

5.1 DEFERRALS AND PROCEDURAL REQUESTS

None

5.2 BRIEFINGS

None

6. POSTPONED REPORTS

None

7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

7.1 Roads Pothole Remediation Audit, AC2020-0408

A presentation entitled "Roads Pothole Remediation Audit", dated 2020 June 11, was electronically distributed and displayed with respect to Report AC2020-0408.

Moved by Citizen Representative Dalton

That with respect to the Report AC2020-0408, 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

7.2 Data Analytics Program Update, AC2020-0622

A presentation entitled "Data Analytics", dated 2020 June 11, was electronically distributed and displayed with respect to Report AC2020-0622.

Moved by Citizen Representative Caltagirone

That with respect to Report AC2020-0622, the following be approved:

That the Audit Committee receive this report for the Corporate Record.

MOTION CARRIED

7.3 External Auditor 2019 Management Letter, AC2020-0567

Moved by Citizen Representative Lambert

That with respect to Report AC2020-0567, the following be approved:

That the Audit Committee:

1. Requests the External Auditor provide an update regarding the implementation status of the recommendations contained in the 2019 Management Letter (Attachment) at the 2021 January Audit Committee meeting; and
2. Recommends that Council receives this Report and Attachment for the Corporate Record.

MOTION CARRIED

7.4 Opportunity Calgary Investment Fund Annual Report, AC2020-0505

A presentation entitled "OCIF Presentation for Audit Committee" was electronically distributed and displayed with respect to Report AC2020-0505.

Moved by Councillor Colley-Urquhart

That with respect to Report AC2020-0505, the following be approved:

That the Audit Committee:

1. Receive this report and presentation for the Corporate Record; and
2. Direct that Attachment 6 remain confidential pursuant to Sections 16 (Disclosure harmful to business interests of a third party) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act* to be reviewed 2035 June 11.

MOTION CARRIED

7.5 ENMAX Corporation Audit and Finance Committee Annual Report, AC2020-0503

Moved by Citizen Representative Caltagirone

That 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*, Committee move into Closed Meeting, at 11:15 a.m. in the Council Boardroom, to consider confidential matters with respect to the following items:

- 7.5 ENMAX Corporation Audit and Finance Committee Annual Report, AC2020-0503;
- 10.1.1 Audit Forum (Verbal), AC2020-0584;
- 10.1.2 External Auditor (Verbal), AC2020-0585;and
- 10.1.3 City Auditor (Verbal,) AC2020-0588.

And further, that Harman Gill, Erica Vervoort, Trevor Nakka, and Ivana Cvitanusic, External Auditors (Deloitte LLP), and Helen Wesley, Charles Ruigrok and Diana Stephenson, Enmax Corporation, be invited to attend the Closed Meeting.

MOTION CARRIED

Committee moved into Public Meeting at 12:09 p.m. with Councillor Woolley in the Chair.

ROLL CALL:

Councillor Woolley, Councillor Farkas, Citizen Representative Dalton, Citizen Representative Caltagirone.

Moved by Citizen Representative Caltagirone

Pursuant to Section 6(1) of the Procedure Bylaw 35M2017, as amended, Section 78 2(a) be suspended to allow Committee to complete the remainder of today's Agenda prior to the scheduled lunch recess.

MOTION CARRIED

Moved by Citizen Representative Caltagirone

That 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*, Committee move into Closed Meeting, at 12:12 p.m. in the Council Boardroom, to consider confidential matters with respect to the following items:

- 7.5 ENMAX Corporation Audit and Finance Committee Annual Report, AC2020-0503;
- 10.1.1 Audit Forum (Verbal), AC2020-0584;
- 10.1.2 External Auditor (Verbal), AC2020-0585;and
- 10.1.3 City Auditor (Verbal,) AC2020-0588.

And further, that Harman Gill, Erica Vervoort, Trevor Nakka, and Ivana Cvitanusic, External Auditors (Deloitte LLP), and Helen Wesley, Charles Ruigrok and Diana Stephenson, Enmax Corporation, be invited to attend the Closed Meeting.

MOTION CARRIED

Committee moved into Public Meeting at 1:03 p.m. with Councillor Woolley in the Chair.

Moved by Citizen Representative Caltagirone

That Committee rise and report.

MOTION CARRIED

ROLL CALL:

Councillor Woolley Councillor Farkas, Councillor Colley-Urquhart, Councillor Gondek, Citizen Representative Caltagirone, Citizen Representative Dalton, Citizen Representative M. Lambert.

People in attendance during the Closed Meeting discussions with respect to Report AC2020-0503:

Clerks: K. Martin and A. Pendola. Advice: H. Wesley, C. Ruigrok, and D. Stephenson (Enmax Corporation). Law: None Observers: T. Nakka, H. Gill, I. Cvitanusic, K. Palmer, C. Male, and C. Smillie.

Moved by Citizen Representative Caltagirone

That with respect to Report AC2020-0503, the following be approved:

That the Audit Committee.

1. Receives this Report for the Corporate Record; and
2. Directs that Attachments 1, 2, 3, 4 and 8 and the Closed Meeting discussions related to those Attachments, remain 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, to be reviewed 2025 June 01.

MOTION CARRIED

8. ITEMS DIRECTLY TO COMMITTEE

8.1 REFERRED REPORTS

None

8.2 NOTICE(S) OF MOTION

None

9. URGENT BUSINESS

None

10. CONFIDENTIAL ITEMS

Committee moved into Public Meeting at 1:03 p.m. with Councillor Woolley in the Chair.

Moved by Citizen Representative Caltagirone

That Committee rise and report.

MOTION CARRIED

10.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

10.1.1 Audit Forum (Verbal), AC2020-0584

ROLL CALL

Councillor Woolley Councillor Farkas, Councillor Gondek, Citizen Representative Caltagirone, Citizen Representative Dalton, Citizen Representative M. Lambert.

People in attendance during the Closed Meeting discussions with respect to Report AC2020-0584:

Clerks: K. Martin and A. Pendola. Advice: T. Nakka, C. Male, K. Palmer. Law: None Observers: H. Gill, I. Cvitanusic, and C. Smillie.

Moved by Citizen Representative Caltagirone

That with respect to Report AC2020-0584, the following be approved:

That the Audit Committee direct the Closed Meeting discussions remain 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*.

MOTION CARRIED

10.1.2 External Auditor (Verbal), AC2020-0585

No report was given.

10.1.3 City Auditor (Verbal), AC2020-0588

ROLL CALL

Councillor Woolley Councillor Farkas, Councillor Gondek, Citizen Representative Caltagirone, Citizen Representative Dalton, Citizen Representative M. Lambert.

People in attendance during the Closed Meeting discussions with respect to Report AC2020-0588:

Clerks: K. Martin and A. Pendola. Advice: K. Palmer. Law: None Observers: C. Smillie.

Moved by Citizen Representative Caltagirone

That with respect to Report AC2020-0588, the following be approved:

That the Audit Committee direct that the Closed Meeting discussions remain confidential pursuant to Sections 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

10.2 URGENT BUSINESS

None

11. ADJOURNMENT

Moved by Citizen Representative Caltagirone

That this meeting adjourn at 1:06 p.m.

ROLL CALL VOTE:

For: (6): Councillor Woolley, Councillor Farkas, Councillor Gondek, Citizen Representative Caltagirone, Citizen Representative Dalton, and Citizen Representative Lambert

MOTION CARRIED

The following items have been forwarded on to the 2020 July 20 Combined Meeting of Council:

CONSENT

- Roads Pothole Remediation Audit, AC2020-0408
- External Auditor 2019 Management Letter, AC2020-0567

The next Regular Meeting of the Audit Committee is scheduled to be held on 2020 July 23 at 1:00 p.m.

CONFIRMED BY COMMITTEE ON

CHAIR

ACTING CITY CLERK

Integrated Risk Management Mid-Year Update (Including Information Technology)

EXECUTIVE SUMMARY

As a result of the COVID-19 pandemic and global economic disruptions, The City is operating in a heightened risk environment. This 2020 mid-year risk report provides the Audit Committee with The City's Risk Profile, information on risk appetite and an update on progressing risk management. In addition, the report includes an update on the technology-related risks within The City and the measures being taken to manage their likelihood and/or impact.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Receive Report AC2020-0711 and the Presentation for the Corporate Record pursuant to Bylaw 48M2012, Schedule A, Section 5;
2. Forward this Report to Council for the Corporate Record, and
3. Direct that Attachment 5 be held confidential pursuant to Sections 24 (Advice from officials) of the Freedom of Information and Protection of Privacy Act; to be reviewed in 2025 July 30.

PREVIOUS COUNCIL DIRECTION / POLICY

As directed at the 2011 January 20 meeting of Audit Committee (AC2011-03), and in accordance with the Audit Committee Terms of Reference, Information Technology (IT) is to provide an annual update on information technology risk management and controls.

BACKGROUND

Understanding, assessing and managing risk is critical to achieving Calgary's vision – a great place to make a living, a great place to make a life. The most strategic risk information is provided to the Audit Committee and to Council at least twice per year. IT's reporting outlines how their risk management strategies have been embedded into daily operations.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

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 outlines The City's 17 Principal Corporate Risks (PCRs) with the most recent definitions.

Attachment 2 provides an overview of the findings from the 2020 mid-year cross-corporate risk review, including a summary of the eight risks that have increased risk ratings and the updated five priority Principal Corporate Risks: Economic, Financial, Health, Safety and Wellness, Infrastructure Management, and Reputation.

As outlined in the updated Integrated Risk Management (IRM) Council Policy (CC011), Council and senior management are responsible for setting risk appetite and risk tolerance for the organization. Attachment 3 provides an update on corporate risk appetite.

Attachment 4 is an update on progressing risk management at The City, including advancing risk maturity and culture, including fostering risk awareness rather than risk avoidance. This shift

Integrated Risk Management Mid-Year Update (Including Information Technology)

in thinking is important for advancing nimble and innovative service delivery and to support Administration's Rethink to Thrive Strategy (C2020-0699).

Managing technology-related risks to protect The City's reputation and maintain the public's trust is critical. IT reviews and manages risks to ensure that systems supporting City services remain functional, secure, and resilient. Attachment 5 is the IT Risk Register (Confidential) which includes the mitigation techniques for strategic and operational risks integrated into IT methodologies, work plans, and budgets.

Stakeholder Engagement, Research and Communication

Stakeholder engagement, including the annual IRM risk maturity survey, informs the advancement of risk management 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.

IT also utilizes the results of the Client Satisfaction Survey, Municipal Benchmarking Network Canada, and an external benchmarking service to identify where The City is performing favourably and where there are opportunities to improve service delivery and cost efficiency.

Strategic Alignment

IRM is one component of The City's Performance Management System. IRM advancements align with Council's Directive to embrace appropriate levels of risk under the Citizen Priority A Well-Run City (C2018-0115, C2018-0201) and Administration's Rethink to Thrive Strategy (C2020-0699). To manage the risks associated with City technology, IT uses the Integrated Risk Management Framework as mandated by the Integrated Risk Management Policy (CC011).

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. Management of information technology risks, ensures systems supporting City services remain functional, secure, and resilient.

Financial Capacity

Current and Future Operating Budget:

Integrated Risk Management activities are undertaken 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 as a result of the heightened and changing risk environment. The IRM team is working with service owners and risk owners to continue to manage and monitor these risks appropriately with a focus on the five priority risks in 2020. This includes being innovative, tech savvy and future focused, as well as leveraging technology and data to make faster and better decisions. For example, IT is

Integrated Risk Management Mid-Year Update (Including Information Technology)

nimble and flexible while practicing effective risk management to reduce technology disruption which could impact the achievement of Council Priorities.

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. The City of Calgary's Principal Corporate Risks
2. The City's Risk Profile at Mid-year 2020
3. Corporate Risk Appetite
4. Progressing Risk at The City
5. CONFIDENTIAL Information Technology Risk Register

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 Principal Corporate Risks (PCRs) have been updated and were approved by the Administrative Leadership Team (ALT) on 2020 June 25. Since the 2019 Year-end Risk Report to the Audit Committee (AC-2020-0011), the total number of risks (17) remains the same although the five priority risks have changed.

The five priority risks are a subset of the 17 PCRs that the ALT identified as a focus for The City. Attachment 2 provides details on the five priority risks including the criteria for determining that a Principal Corporate Risk is a priority. On 2020 June 25, the ALT approved five priority risks for 2020: Financial Risk, Health and Safety Risk, Infrastructure Management Risk, Economic Risk and Reputation Risk. Since last reporting to the Audit Committee in 2020 January, Economic Risk has been added to the list of priority risks with Political Risk being removed.

In addition, there has been one PCR title change and one risk owner change. The PCR changes and rationale are provided below:

- The Health and Safety Risk title changed to Health, Safety and Wellness to reflect the physical and psychological aspects that can impact employees at work.
- The Security risk owner changed from the City Solicitor to the City Manager.

The 17 Principal Corporate Risks are shown below in alphabetical order along with the respective risk owner. The five priority risks are identified by an asterisk.

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*

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 and 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 and Wellness 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 *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 Manager*

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.

The City's Risk Profile at Mid-year 2020

The City's Risk Profile shows the effects of operating within a heightened risk environment. This Attachment updates The City's Risk Profile following the 2020 mid-year cross-corporate risk review.

The update consists of six parts:

1. An overview of risk management's role in responding to COVID-19.
2. A visual representation of The City's Principal Corporate Risk (PCR) ratings resulting from the mid-year corporate review, including key points and changes since the last update to the Audit Committee on 2020 January 24 (AC2020-0011).
3. An update on the five priority risks for 2020.
4. A summary of capital risks to the organization.
5. Critical uncertainties that can inform risk-based decision making.
6. Appendix: The City of Calgary's Risk Matrix.

Part 1: COVID-19, Risk and The City's Response

Risk management's role in responding to COVID-19 is paramount in Calgary's Municipal Emergency Plan and two of its annexes – the Infectious Disease Management Plan and Corporate Business Continuity Plan. These plans lay out actions that should be taken during any pandemic event and outline the associated governance of decisions. Additionally, specific supply risk is managed by the pandemic stockpile capital program, which ensures ample supplies of facial PPE is available for our essential services. COVID-19 taskforces have been convened to manage our response to the event and maintain service delivery. The structure of the COVID-19 task forces are being reviewed to ensure The City remains responsive in our changing environment.

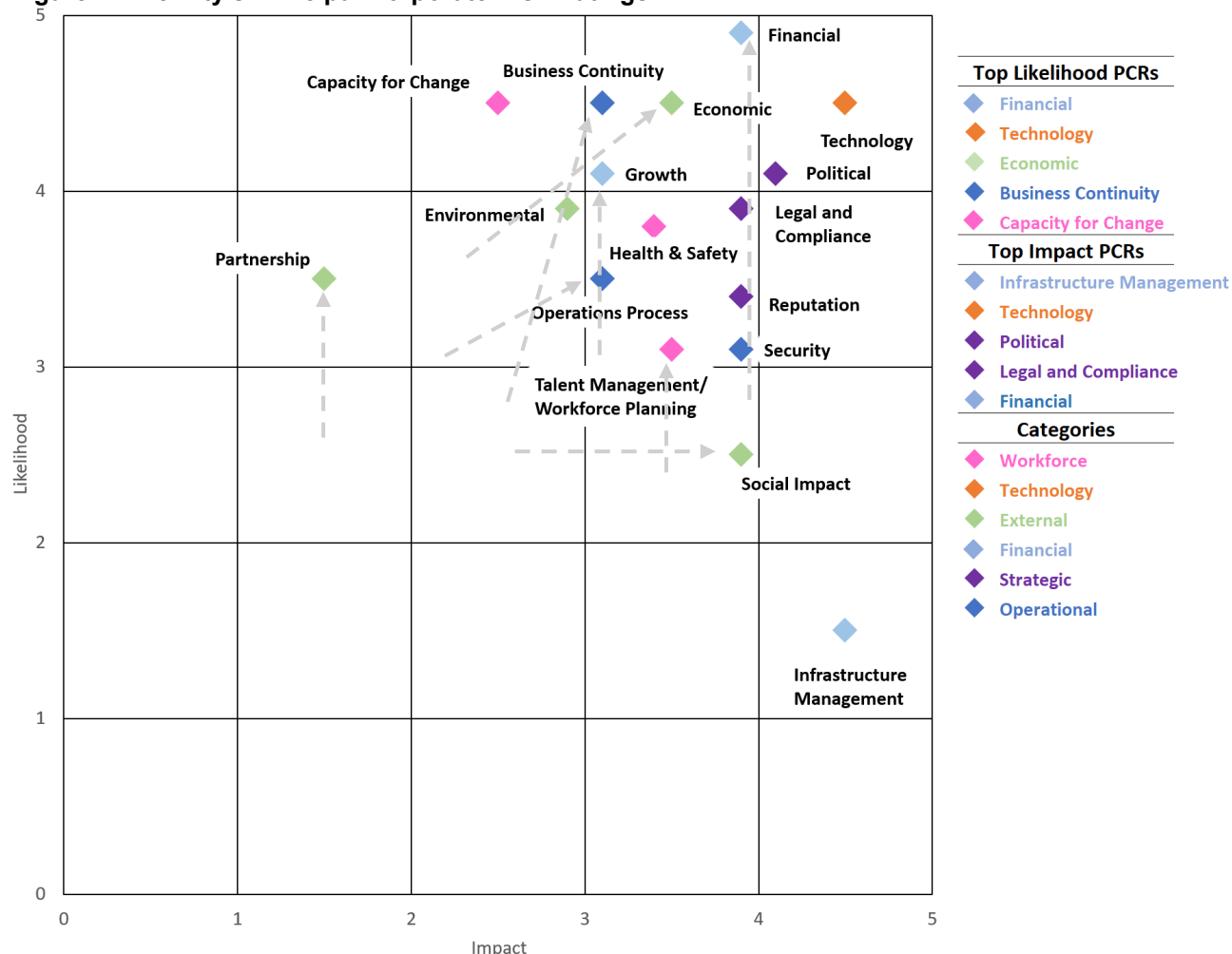
The City is advancing through the response phase of COVID-19 and into a prolonged recovery. This will require the organization to adapt our risk management priorities to the new normal of this dynamic environment.

CEMA has established two phases of risk response and prioritization to lead The City's COVID-19 actions. CEMA's initial focus was on containing the spread of the virus by prioritizing: the health and safety of employees and citizens, the continuity of essential services, and supporting public health interventions. For the recovery phase, CEMA's focus for risk management is on sustaining the risk mitigation gains we've achieved and on maintaining the capacity of our critical systems. Current priorities include: supporting the continuity of critical infrastructure, protection of public health, situational awareness and communication, and resilience and recovery planning. As The City transitions into recovery, we will continue to monitor and prepare for a possible second wave of COVID-19 cases in the community.

Part 2: Principal Corporate Risk Ratings

Figure 1 below illustrates The City's PCR risk ratings as of 2020 mid-year. The grey arrows demonstrate risks that have moved from their 2019 year-end risk ratings.

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.

Since the 2019 year-end Principal Corporate Risk report to the Audit Committee, eight PCRs have changed their risk rating as shown in the table below. The updates reflect information provided by subject matter experts, as well as new sources of risk information made available to the Integrated Risk Management team such as brief questionnaires, reviewing key risk indicators and measures, as well as scenario planning submissions related to COVID-19 and The City's response strategies.

PCR	Rating Change	Justification
Business Continuity Risk	From Medium to Extensive	The City is expecting business continuity disruptions to continue at least throughout 2020. Every service line has been impacted by COVID-19 as well as The City's ability to

PCR	Rating Change	Justification
		meet its strategic goals as resources are redirected to addressing response and relaunch efforts.
Economic Risk	From High to Extensive	The combination of the COVID-19 pandemic and the collapse of crude oil prices have caused three principle shocks to Calgary's economy: structural change, supply shock and a demand shock. The culmination of the three shocks has had a significant impact on our economy.
Financial Risk	From High to Extensive	Administration has forecasted a budget gap for 2020 due to a decrease in revenue, increase in expenditures, and delayed or deferred billing – and has taken steps to close this gap. The longer the pandemic and economic downturn lasts, the greater financial impact we are anticipating.
Growth Risk	From High to Extensive	With the emergence of COVID-19 and the fall in world oil prices the likelihood of deviation of growth from projections has increased. This can impact our ability to achieve policy goals and overall vision. This has cost implications for the level of service as well as the area over which that service is provided.
Operations, Process Risk	From Medium to High	The City's operations and processes are experiencing an increase in risk due to strategy and service reductions throughout COVID-19 response. Multiple services have noted they do not have the resources and capacity to update policies and processes, as efforts are diverted to addressing the pandemic.
Partnership Risk	From Low to Medium	For many of The City's partners, the impact of public health orders on their revenue generating activities is affecting their ability to meet operating and capital expenses in the short and longer term, impacting their sustainability. This is particularly significant for those with lower reserve levels.
Social Impact Risk	From Medium to High	New pockets of poverty are emerging as some populations have been more adversely impacted than others. This is likely to result in a significant increase in Fair Entry applications. Non-profit preventive social service organizations that assist Calgarians experiencing vulnerabilities are facing significant challenges including increased demand for their services, increased complexity in client need, revenue generation and unforeseen costs associated with the COVID-19 pandemic response.
Talent Management and Workforce Planning Vulnerability Risk	From Likelihood of 'Possible' to 'Likely'	The COVID-19 situation has a direct impact on our workforce, which has required a modification throughout the organization (for example, layoffs and hiring freeze). While work continues, such as organizational development and diversity and inclusion, some delays are inevitable. *The overall rating did not change, the likelihood of negative impact for this risk has increased while the impact remains stable.

Part 3: Five Priority Risks

On 2019 December 10, the ALT approved the 2020 Five Priority Risks: Financial Risk, Health, Safety and Wellness Risk, Infrastructure Management Risk, Political Risk, and Reputation Risk.

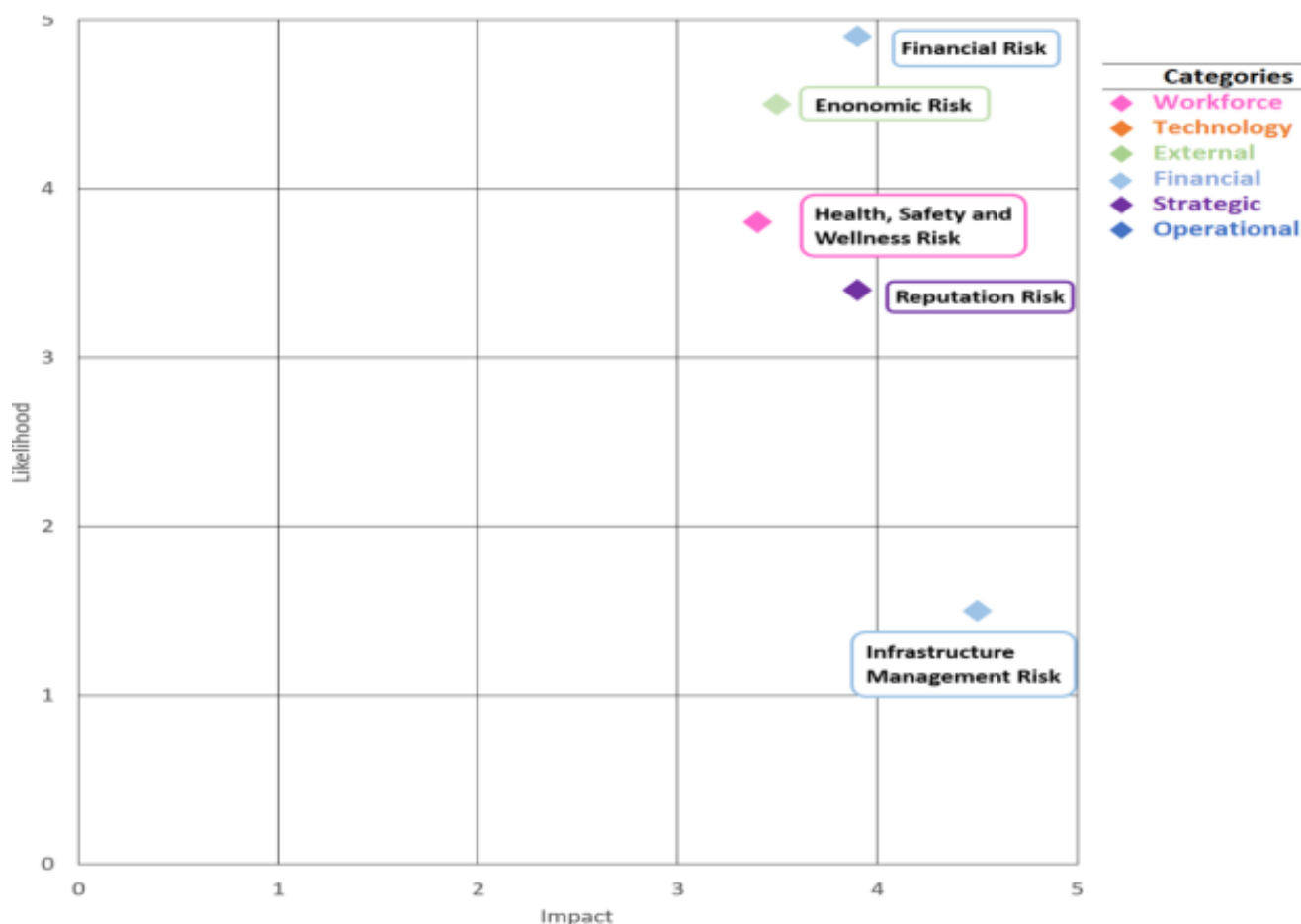
To reflect the changing circumstances and strategic direction of the organization, on 2020 June 25, the ALT updated the Five Priority Risks to replace the Political Risk with the Economic Risk.

The Five Priority risks are determined based on 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 continues to experience significant exposure in these five risks. The Integrated Risk Management team held sessions with subject matter experts on each of these risks to discuss current indicators and response strategies and will continue to work with stakeholders throughout the organization to support proactive risk management practices. Figure 2 illustrates the 2020 Five Priority Risks. Detailed information on each of the Five Priority Risks follows.

Figure 2: Five Priority Risks (rating at mid-year 2020)



Economic Risk: responding to multiple shocks

The city of Calgary is experiencing a lot of change and uncertainty when it comes to economic risk. It is a small open economy and is exposed to global events. The global lockdown to contain the COVID-19 pandemic and the collapse of crude oil prices have caused three principal shocks to Calgary's economy: structural change, supply shock and a demand shock. This is particularly disruptive to Calgary because its growth in terms of local economy is driven by its participation in international trade, especially the exports of Alberta's crude oil and other commodities to the outside markets.

In response

The Economic Resilience Task Force exists to recommend short-term strategies specifically related to the COVID-19 shock. Meanwhile, medium and long-term recommendations are being developed to address the city's resilience to all three shocks. The economic risk is being managed by a coordinated response to these shocks, an emphasis on economic recovery in decision making, and resilience-building activities.

Financial Risk: managing finances while exposure increases

While Calgary faces the combination of the COVID-19 pandemic, economic disruption, and the collapse of crude oil prices this has resulted in considerable financial pressures for the organization. As impacts on Calgary's economy accumulate, The City is experiencing an increase in expenditures, revenue loss, and delayed or deferred tax and fee collections.

The City's financial controls have allowed us to respond to these shocks and blunt the impacts to the organization; however, a continued, sustained pressure on this risk could hinder The City from achieving its objectives.

In response

There are three overall responses to this risk:

1. Taking on additional financial risk to lessen impacts on citizens by delaying or reducing expenditures and hiring or using reserves and using corporate liquidity to offer relief.
2. Increasing reporting to Council to closely monitor the situation and develop a framework for economic recovery.
3. Focusing on closing the financial gap. Administration is continuing to identify and develop more sophisticated scenarios to inform tactics to close the revenue gap and understanding service and financial impacts of the unpredictable recovery impact.

Health, Safety, and Wellness Risk: focusing on people in the organization

While the pandemic and our response to it has significantly impacted the organization's workforce, maintaining a safe and healthy place for people to work remains a top priority for The City.

Employee safety and wellness indicators have improved in recent months, yet the risks to employee well-being remain high due to internal factors such as the pace/amount of organizational change and workforce demographics, as well as external factors such as Calgary's economic environment and population health.

Increased pressure and stress on employees due to various internal and external factors may negatively affect employee mental health and resilience over time. Psychological safety continues to be an important issue for The City.

In response

Several important strategies and tactics are being implemented to protect employee physical and psychological safety.

A psychological safety governance working group has been formed to coordinate support to employees and The City regarding accountability and responsibilities pertaining to psychological safety.

Lost Time Claim Frequency is The City's key measure to track safety performance. For this measure, a lower score indicates better performance. Overall, safety performance in 2019 improved over the previous year. However, it may take time to achieve sustained, long-term positive results on health, safety and wellness performance.

Infrastructure Management Risk: measuring the conditions of City assets

Currently, this risk faces a high degree of uncertainty. There is the potential for further reductions in capital funding (either through City budget adjustments or funding from other orders of government) which could put further pressure on the infrastructure systems.

There is a continued risk that the condition of The City's infrastructure will degrade. In order to maintain a high level of asset conditions to suit the business needs of the organization, regular inspections, assessments, funding, and prioritization of work are required. Delayed maintenance can impact the conditions of the City's facility assets that already are under pressure.

In response

The City has implemented additional monitoring for any potential stimulus packages that may come from other orders of government that would directly impact this risk.

In areas experiencing lowered demand, some maintenance activities have been accelerated to take advantage of the lessened impact of disruptions.

Reputation Risk: watching citizen trust and confidence in The City

In times of crisis, citizens interact differently with local, provincial, and federal governments. Citizens look to The City for trustworthy information and evidence of data-driven actions in response to the pandemic.

There is a great deal of scrutiny and attention on The City as the heightened financial risk and related decisions can increase the risk exposure for the organization's reputation.

As the pandemic continues, increasingly services have noted reputation risk as their top risk. This is due to sustained cancellations and service reductions which may negatively impact citizens' perceptions. The City is currently seeing an increase in satisfaction which is consistent with the pattern typically experienced in times of crisis.

While the risk remains high for the organization, it is too early to predict how the COVID-19 crisis will impact The City's reputation in the long term.

In response

The City of Calgary is providing focused communication and engagement for employees, citizens and businesses to promote safety and well-being during the COVID-19 crisis. Examples of these efforts include a monthly citizen survey on The City's COVID-19 response as well as ongoing employee engagement via livestreams and regular email updates. These targeted initiatives are a response to the ongoing crisis and serve to uphold The City's reputation. It is anticipated that these efforts will result in a temporary increase in citizen satisfaction, trust and confidence, resulting in overall strengthened reputation during the crisis.

Part 4: Capital Risks

Related to The City's capital projects, The City is facing a volatile situation. While the COVID-19 pandemic is a disruptive event, The City remains optimistic about its ability to deliver its capital portfolio approved in the One Calgary Service Plans and Budgets. While some challenges remain (i.e. contractual, access to human capital, access to materials), The City is working to address these to maintain minimal impact on project delivery.

Infrastructure Calgary is monitoring the risks, issues, impacts and status of capital investments as a result of the COVID-19 pandemic and is working with services that deliver capital investments to support risk mitigation and advance projects where possible. The City continues to work with industry partners to maintain construction as an essential service and keep Calgarians working safely through the pandemic.

Part 5: Critical Uncertainties

To complete The City's risk profile at mid-year 2020, a new section on critical uncertainties facing the community and our organization is included below. The critical uncertainties are realities that are unstable or unpredictable and are important to understand to plan ahead and inform decision-making in the short, medium and longer term. An initial listing of critical uncertainties facing Calgary and the community is organized below.

Community and social uncertainties – How do we continue to be a city of safe and inspiring neighbourhoods?

The fear of a second wave of the pandemic and its potential impact on public health is a concern for our city and neighbourhoods. The impacts from COVID-19, the precautions and the lockdowns are having a lasting effect on mental health and social cohesion. The following uncertainties will challenge to us to continue to be a safe and inclusive city:

- Social unrest and citizen protests
- Less physical togetherness and fewer community gatherings
- Current and future mental health impacts
- Social inequalities, impacts on vulnerable populations
- The role of partnerships: including Civic Partners, other governments, post-secondary, The City and the private sector.

Health and wellness and environmental uncertainties – How do we continue to lead in environmental policies and practices to support healthy, active citizens? The following uncertainties will challenge us to be a healthy and green city:

- Increased demand for open spaces

- Change in philosophy about health and how we recreate
- Personal hygiene norms and expectations
- Health and science-based decision making
- Continued support for climate change strategies

Mobility uncertainties - How do we continue to be a city that moves?

Changing commuter patterns and consumer behavior is impacting planning for our City's transportation network and transportation hubs. The following will challenge us to offer convenient, affordable, accessible and efficient transportation choices keeping Calgarians moving and connected.

- Transit ridership, the way we move and interact
- Transportation hubs and measures to promote public health, screening, and proximity
- Protecting essential workers and those working outside of the home who use transit
- Increased cycling and pedestrian traffic

Economic, financial and business uncertainties - How do we continue to be a prosperous city?

The fallout from the COVID-19 pandemic, global economic disruptions and the impact from lower than expected oil prices will have a lasting effect on Calgary. The following critical uncertainties will challenge us to attract talent, provide opportunities and be the best place in Canada to do business:

- Changing business models
- Vacancies in downtown buildings
- Future development investment
- Changing commuter habits and consumer behaviours

Municipal governance uncertainties - How do we have a modern and efficient municipal government that makes citizens' lives better every day?

- Employer responsibilities and employee rights
- Property tax system stability and changing revenue sources
- Working from home
- User fee levels required for services
- More technology – online services

The critical uncertainties are important to understand to plan ahead and inform decision-making in the short, medium and longer term. As a next step, further conversations are planned to focus and support a nimble and agile organization that is capable of emerging stronger and thriving into the future.

Appendix: The City of Calgary's Risk Matrix

		Risk Matrix				
		Level	Probability*			
Likelihood	5	Almost Certain	90% and greater	Medium	High	High
	4	Likely	65-89%	Low	Medium	High
	3	Possible	35-64%	Low	Low	Medium
	2	Unlikely	11-34%	Slight	Low	Low
	1	Rare	10% and less	Slight	Slight	Low
		Impact				
		1	2	3	4	5
		Negligible	Minor	Moderate	Significant	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.

		1 Negligible	2 Minor	3 Moderate	4 Significant	5 Severe
Impact Category	Workforce	<ul style="list-style-type: none"> • Minor injury or first aid treatment. • Low turnover; easy to hire people with required skills in a timely fashion. 	<ul style="list-style-type: none"> • Injury requiring treatment by medical practitioner and/or lost time from workplace. • Minor psychological impact. • Some turnover; some difficulty in hiring people with required skills in a timely fashion. 	<ul style="list-style-type: none"> • Major injury or psychological illness/hospitalization. • High turnover; small delays in ability to hire people with required skills in some areas of the organization. 	<ul style="list-style-type: none"> • Permanent, or multiple major, injuries or psychological illness. • High turnover; notable delays in ability to hire people with required skills in some areas of the organization. 	<ul style="list-style-type: none"> • Conditions that could result in fatality(ies). • Very high turnover; unable to hire for extended periods of time people with required skills in many areas of the organization.
	Technology	<ul style="list-style-type: none"> • Non-critical system faces minor interruption. • Compromise of unrestricted information otherwise available in the public domain. 	<ul style="list-style-type: none"> • Non-critical system faces significant interruption. • Minor compromise of protected information sensitive to internal or sub-unit interests. 	<ul style="list-style-type: none"> • Critical system faces minor interruption. • Compromise of protected information sensitive to the organization's operations. 	<ul style="list-style-type: none"> • Critical system faces significant interruption. • Compromise of restricted information sensitive to organizational interests. 	<ul style="list-style-type: none"> • Irreparable widespread damage to critical system(s). • Compromise of restricted information with major, ongoing impact.
	External	<ul style="list-style-type: none"> • Immediately reversible damage. • Minimal flood damage in an isolated area. 	<ul style="list-style-type: none"> • Short-term reversible damage. • Minimal flood damage in more than one area. 	<ul style="list-style-type: none"> • Long-term reversible damage. • Major flood damage in an isolated area. 	<ul style="list-style-type: none"> • Limited irreversible damage. • Major flood damage in more than one area. 	<ul style="list-style-type: none"> • Widespread irreversible damage. • Massive flood damage in multiple areas throughout the city.
	Financial	<ul style="list-style-type: none"> • Financial impact is within expected variance and pre-emptively accounted for. 	<ul style="list-style-type: none"> • Financial impact is expected and planned for with minor adjustments needed. 	<ul style="list-style-type: none"> • Financial impact is greater than planned for, some delay, reduction in scope or alternate funding is required. 	<ul style="list-style-type: none"> • A large unplanned financial impact. Significant delays or adjustments to scope are required. Some alternate funding may be achieved. 	<ul style="list-style-type: none"> • Unplanned financial impact that results in indefinite delays or cancellation of work. Alternate funding is not able to be acquired.
	Strategic	<ul style="list-style-type: none"> • A strategic goal within the organization is slightly impacted. • Reputation to internal stakeholders may be slightly impacted. 	<ul style="list-style-type: none"> • Strategic goal within the organization requires some adjustment. • Reputation to key internal stakeholders is adversely impacted. 	<ul style="list-style-type: none"> • An organizational-wide strategic goal is compromised. • Reputation to internal and some external stakeholders may result in some loss of confidence and trust in the organization. 	<ul style="list-style-type: none"> • Unable to deliver on an organizational-wide strategic goal for a sustained period of time. • Reputation sustains extended, substantial damage to confidence and trust. 	<ul style="list-style-type: none"> • Unable to deliver on an organizational-wide strategic goal indefinitely. • Reputation extended, substantial damage to confidence and trust which is irreparable.
	Operational	<ul style="list-style-type: none"> • Minimal impact on non-core operations. The impact can be dealt with by routine operations. 	<ul style="list-style-type: none"> • Some impact on organizational capability in terms of delays, systems quality but able to be dealt with at operational level. 	<ul style="list-style-type: none"> • Impact on the organization resulting in reduced performance such that targets are not met. 	<ul style="list-style-type: none"> • Some unavailability of critical skills/people. • Breakdown of key activities leading to reduction in performance. 	<ul style="list-style-type: none"> • Protracted unavailability of critical skills/people. • Critical failure(s) preventing core activities from being performed.

Corporate Risk Appetite

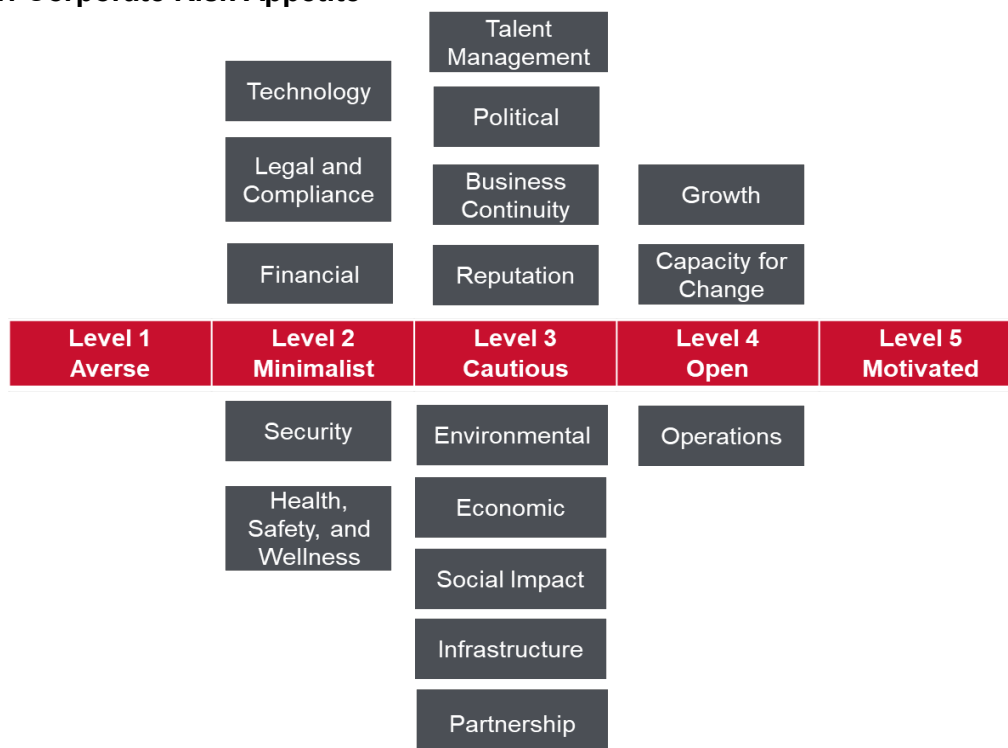
Establishing and developing The City’s approach to articulating and applying risk appetite supports our ability to achieve the Council Directive to “embrace appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve.”

Risk appetite is the level of risk that the organization is willing to accept to achieve its results. The City is using a risk appetite scale to define risk levels:

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

Risk appetite for the Principal Corporate Risks (PCRs) were discussed and confirmed by the Administrative Leadership Team (ALT) on 2020 June 25 as shown in Figure 1.

Figure 1: Corporate Risk Appetite



Risk appetite and tolerance work continues through communications, facilitated workshops and other engagements with services. One use of risk appetite is the current work with the Solutions for Achieving Value and Excellence (SAVE) program to apply a balance of risk taking to capitalize on opportunities while avoiding potential negative risks in our pursuit of cost savings as well as promoting an overall culture of effectiveness and efficiency.

Table 1 was also presented to the ALT on 2020 June 25, and it shows where the overall risk lies on the Risk Appetite Scale while also demonstrating how the specific, related work may differ.

	Level 1 Averse	Level 2 Minimalist	Level 3 Cautious	Level 4 Open	Level 5 Motivated
External	Partnership Risk				
	Shared service delivery with Partners				
	Quality of City drinking water	The City's GHG emissions	Innovation related to energy		
	Environmental Risk				
	Economic Risk				
	City invests to attract business			Working with Partners to advance opportunities for economic growth	
	Social Impact Risk				
	Calgarians experiencing vulnerability	Support for Partners	Opportunities for positive social impact		
Financial	Financial Risk				
	Debt	Investment volatility			
	Infrastructure Risk				
	Building related regulations	New building materials			
	Growth Risk				
	Service levels for different communities		Support economic growth		



Strategic	Legal and Compliance Risk <div>Non-compliance with regulations</div>	
	Political Risk <div>Volatile funding from other orders of government</div>	<div>Proactively working with others</div>
	Reputation <div>Citizen satisfaction surveys</div>	
Operational	Security Risk <div>Security risks to people</div> <div>Security risks to assets</div>	
	Business Continuity Risk <div>Essential services</div>	<div>Non-essential services</div>
	<div>Interruptions to service</div>	Operations, Process Risk <div>Increase effectiveness</div>
Technology	Technology Risk <div>Reliability</div>	<div>New technological solutions</div>
People	Health, Safety and Wellness Risk <div>Failure to report</div> <div>Breach of regulation</div> <div>Accommodate back to work</div> <div>WCB claims</div>	

	<div> <div>Non-compliance with Labour Relations Code</div> <div>Collective bargaining</div> <div> Talent Management and Workforce Planning Vulnerability Risk </div> <div>Employee satisfaction</div> <div>Opportunities to enhance talent</div> </div>
	<div> <div>Pressure on staff</div> <div> Capacity for Change </div> <div>Culture of innovation</div> </div>

Progressing Risk at The City

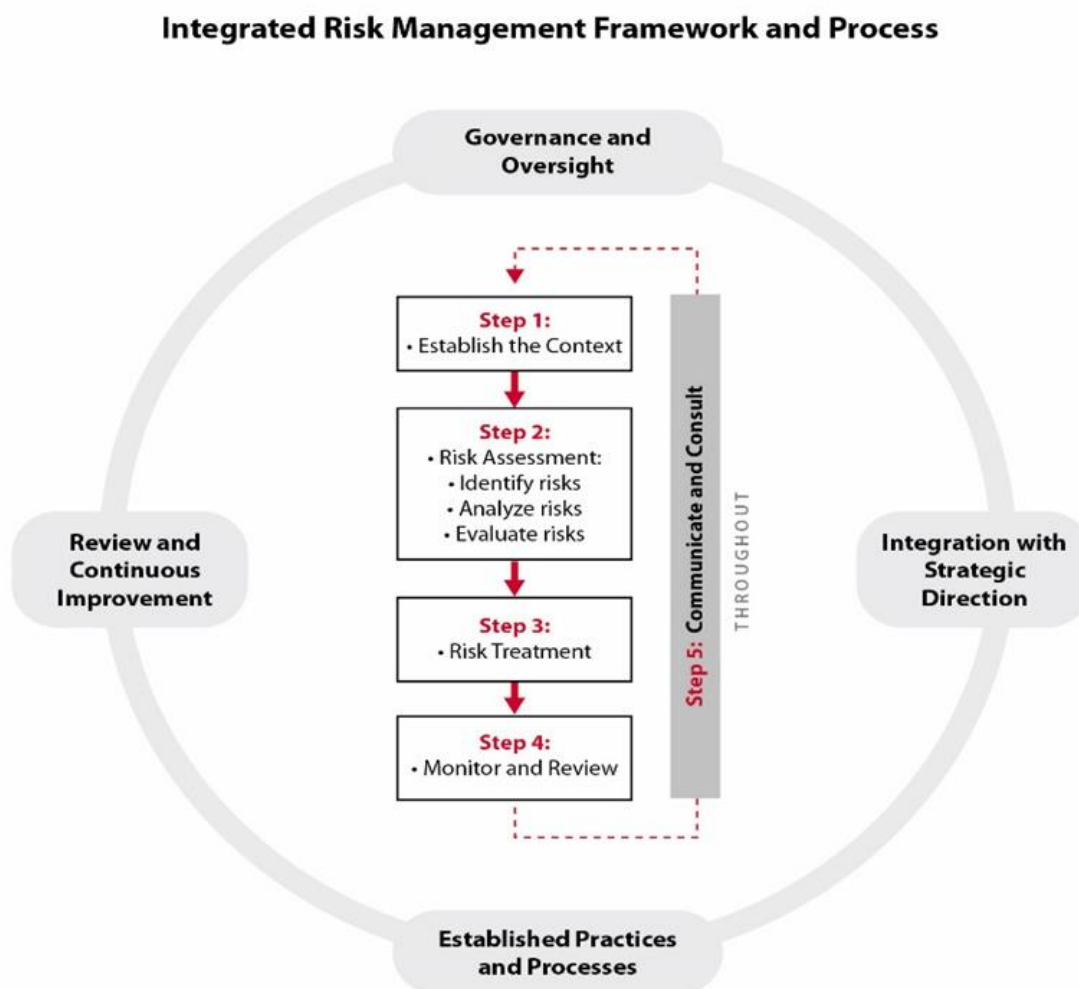
Progressing risk management and integrating risk awareness in our culture is an important part of being a well-run City and Administration's Rethink to Thrive Strategy presented to Council by the City Manager on 2020 June 29 (C2020-0699).

This Attachment provides updates on progressing risk management at The City including updates on questions raised by the Audit Committee on 2020 January 24 (AC2020-0011) about risk practices, processes and risk awareness culture at The City of Calgary.

The City's Integrated Risk Management (IRM) Framework

The City's IRM Framework and Process guides our risk management practices to inform decision making. There are four pillars to the Framework as shown in Figure 1.

Figure 1: IRM Framework and Process



The four pillars and continuous improvement efforts associated with each are shown below:

- **Governance and Oversight:** This pillar reflects that the ALT, Audit Committee and Council have responsibilities for oversight of risk management as evidenced through the Audit Committee bylaw and through regular reporting. In 2020, the IRM Council Policy (CC011) was updated and approved by Council and now reflects the opportunity to capitalize on risk and includes additional ways to manage risk beyond mitigation.
- **Integration with Strategic Direction:** This pillar reflects that Integrated Risk Management is woven into existing business processes and informs The City's strategic direction. In 2020 May, members of the ALT engaged in a strategic discussion on critical uncertainties. This work is expected to continue with the ALT and Council.
- **Established Practices and Processes:** This pillar reflects that The City has many established practices and processes which support effective risk management. This includes tools such as a risk matrix (updated in 2019 to a 5x5 matrix, shown in Attachment 2), a risk appetite scale (shown in Attachment 3), and an e-Learning course accessible by all employees.
- **Review and Continuous Improvement:** This pillar reflects that IRM is continuously evolving. A focus of IRM in 2020 is to advance a risk aware culture, which encourages everyone to manage risks proactively, including embracing the positive side of risk, and to communicate openly about risk. This way of thinking enables nimble and innovative service delivery. The City's risk maturity and culture, connecting with risk functions and considering risk in reports, promotes the advancement of risk awareness in our culture.

The City's Risk Culture and Maturity

Maturing risk awareness is a component of Administration's Rethink to Thrive Strategy. This strategy encourages innovation, experimentation and a "fail fast" mentality and a strong focus on safety (psychological and physical), respect and inclusion. In keeping with this Strategy, The IRM Program has been focusing on integrating risk awareness in our culture to embrace the positive and negative sides of risk to promote innovation. This includes encouraging open risk discussions, which require safe and respectful work environment.

The City's risk maturity is a combination of risk practices, culture, functions and processes. The IRM program contributes to risk maturity, but it is the collective responsibility of all employees based on the role outlined in the IRM Council Policy (CC011). Two important components that inform risk maturity are advancing risk practices and processes and stakeholders' perceptions of risk management.

The Risk Maturity Survey measures IRM stakeholders' perception of risk management at The City. The findings contribute to a better understanding of our IRM stakeholder's needs. The 2020 Risk Maturity Survey results are similar to the 2019 findings in that there is a desire to improve risk maturity and culture. The average desired score for risk maturity is four on a risk maturity scale of five. Even though the results support a desire for increasing risk maturity and culture, there was a slight drop in the average risk maturity to 2.4 from 2.6 in 2019. This can be attributed to:

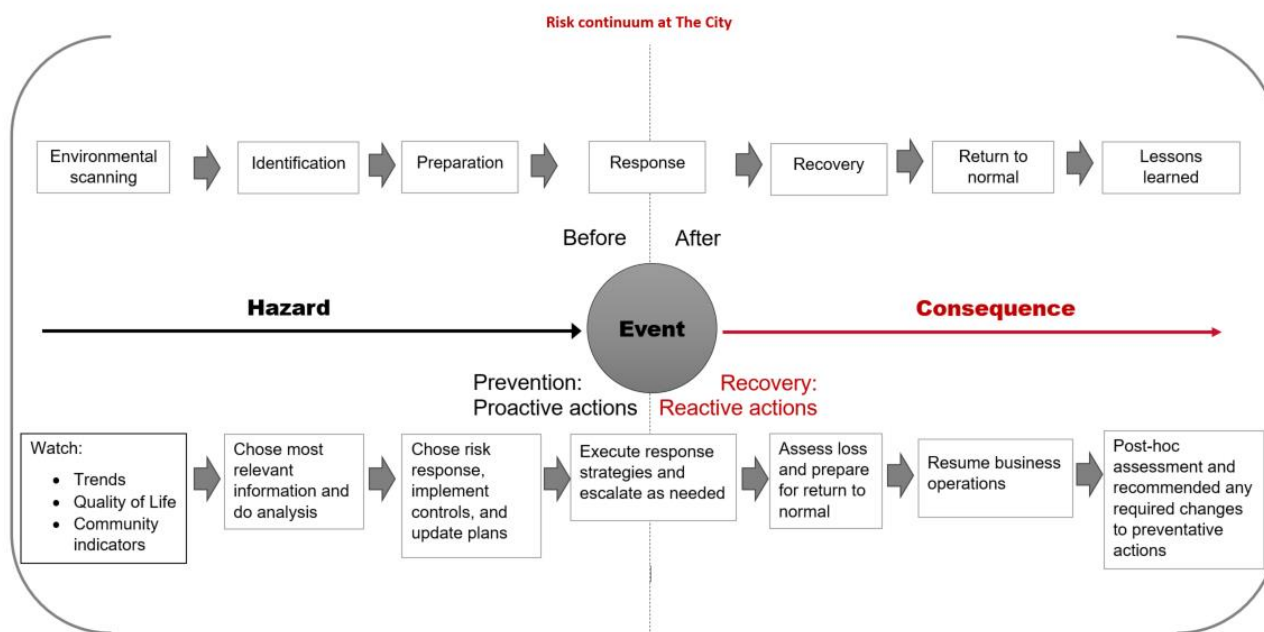
- the desire for risk communication improvements,
- the barrier identified by stakeholders of limited capacity and time for risk management,
- the need to continue to improve the integration of risk awareness in The City's culture, and
- the need to better clarify the connection between risk and everyday decision making.

In response to the Survey, the IRM Program has tactics in place to address the opportunities and challenges identified with a focus on broadening risk communications in the organization, working with risk functions to ensure alignment and establish connections, advancing risk appetite and tolerance through consultation with stakeholders, and incorporating risk into other work such as the Solutions for Achieving Value and Excellence (SAVE) program, monthly reports to Council on the service and financial impacts of COVID-19 and Mid-Cycle Adjustments to service plans and budgets.

Aligning Risk Functions

The IRM team is working with stakeholders to align risk functions and to develop a risk continuum. Other activities to support this alignment include bi-annual risk workshops, partnering to conduct sessions with senior leaders, and referencing the connections in the IRM e-course. This risk continuum tool, based on a bow-tie analysis (an analysis to identify proactive and reactive risk management strategies for an event), will demonstrate how different groups, tools and resources work together to support risk management. It spans the continuum from early scanning and detection of risks to the response and recovery from a risk event. Below is a visual representation of the risk continuum.

Figure 2: Risk Continuum at The City



Risk in Report Writing to Council

As outlined in the Integrated Risk Management Council Policy (CC011),

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.

In addition, as noted in the 2019 Year-end Principal Corporate Risk Report to the Audit Committee (AC2020-0011, Attachment 3), Audit Committee members and Council members interviewed indicated that improvements could be made to the information provided to Council on risks.

In support of improving risk reporting to Council and Committee, the IRM Program has been working with City Clerks to develop updated guidelines and tools for report writers to support them in completing the risk section of reports. The updates will provide guidance to report writers on how to provide risk information that supports Council to have open and transparent discussions about the risks, risk management strategies and the appropriate level of risk taking associated with the proposed recommendations.

These updated guidelines and tools will be available as part of the roll-out of the new Council and Committee report template that was used to present Administration's Rethink to Thrive Strategy to Council on 2020 June 29 (C2020-0699).

Opportunity Calgary Investment Fund Administration Audit

EXECUTIVE SUMMARY

The City Auditor's Office issued the Opportunity Calgary Investment Fund Administration Audit Report to Opportunity Calgary Investment Fund Ltd. (OCIF) on July 14, 2020. The audit focused on the effectiveness of fund administration processes by evaluating the design and operating effectiveness of key process controls that mitigate significant financial and reputational risks. We raised five recommendations to improve the consistency and transparency of OCIF's evolving fund administration processes. OCIF management agreed with all recommendations and committed to the implementation of action plans no later than May 31, 2020. The City Auditor's Office will track the implementation of these commitments as part of our ongoing follow-up process.

CITY AUDITOR'S RECOMMENDATIONS

1. That Audit Committee receive this report for the Corporate Record; and
2. That 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. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office Revised 2020 Audit Plan was approved on October 24, 2019. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

In 2017, in response to prolonged economic challenges, Council approved the establishment of a \$100M Opportunity Calgary Investment Fund (OCIF Reserve) from The City of Calgary's (The City's) reserves. The OCIF Reserve is intended to support projects that will stimulate growth in targeted sectors of Calgary's economy, and serve as a catalyst for economic growth, diversification, and increased employment. In 2018, Council approved the creation of OCIF, a wholly-owned subsidiary of The City, to administer the OCIF Reserve. OCIF's mandate, as stated in the Operating and Funding Agreement with The City, is to manage the OCIF Reserve effectively to encourage economic recovery and growth, help reduce the impact of the economic downturn on Calgary's citizens and businesses, and capitalize on new opportunities. As at December 31, 2019, OCIF received 217 ideas, granted funding for nine projects with a total value of \$23.5M, and disbursed funding of \$7.05M.

The objectives of this audit were to assess the alignment of OCIF's fund administration process to requirements established in the Operating and Funding Agreement and OCIF Reserve goals, and the effectiveness of process controls to mitigate the significant reputational and financial risk that could impact the achievement of OCIF's mandate.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Based on our review across all five phases of OCIF's fund administration process, current process controls were aligned to OCIF Reserve goals. We concluded existing process controls

Opportunity Calgary Investment Fund Administration Audit

were operating as designed within three (business case submission, contribution agreement and fund disbursement) of the five phases of the process.

Recommendations included process improvements through increased use of quantifiable scoring parameters and consistent document management of key decisions in Phase 1 (project idea submission), as well as additional governance controls to manage potential conflicts of interest.

Process controls within Phase 5 (monitoring and reporting) were designed effectively, however, given final reports had not been submitted, we could not conclude on operating effectiveness. We encouraged OCIF management to periodically assess the effectiveness of the OCIF team's process to monitor and report on the achievement of objectives and expected benefits specified in contribution agreements.

Stakeholder Engagement, Research and Communication

This audit was conducted with the OCIF team acting as the principal audit contact. The OCIF team includes OCIF and Calgary Economic Development (CED) staff since OCIF entered into an administrative services and fund management agreement with CED to administer the intake and review of applications.

Strategic Alignment

Audit reports 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)

Not applicable.

Financial Capacity

Current and Future Operating Budget

Not applicable.

Current and Future Capital Budget

Not applicable.

Risk Assessment

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

This audit was undertaken as part of the City Auditor's Office Revised 2020 Annual Audit Plan to provide assurance on the effectiveness of the fund administration process to facilitate decision making regarding utilization of the \$100M OCIF Reserve.

Opportunity Calgary Investment Fund Administration Audit

REASONS FOR RECOMMENDATIONS

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

ATTACHMENTS

1. Opportunity Calgary Investment Fund Administration Audit Report
2. Opportunity Calgary Investment Fund Administration Audit Presentation Slides



Calgary






City Auditor's Office

Opportunity Calgary Investment Fund Administration Audit

July 14, 2020

THIS PAGE LEFT INTENTIONALLY BLANK

Table of Contents

Executive Summary	5
1.0 Background	7
2.0 Audit Objectives, Scope and Approach	9
2.1 Audit Objectives	9
2.2 Audit Scope.....	9
2.3 Audit Approach.....	9
3.0 Results.....	10
3.1 Fund Administration Process (Five Phases).....	10
3.1.1  Project Idea Submission (Phase I)	10
3.1.2  Business Case Submission (Phase II).....	12
3.1.3  Contribution Agreement (Phase III)	14
3.1.4  Fund Disbursement (Phase IV)	15
3.1.5  Monitoring and Reporting (Phase V).....	16
3.2 Governance Framework.....	16
3.2.1 Sub-committee's Advice	16
3.2.2 Exception Management	17
3.2.3 Declaration of the Conflict of Interest	17
4.0 Observations and Recommendations	19
4.1 Idea Submission Due Diligence and Assessment.....	19
4.2 Idea Scoring Criteria.....	21
4.3 Sub-committee's Review Process.....	22
4.4 Exception Management Process	24
4.5 Officers' Disclosure of Conflict of Interest	25

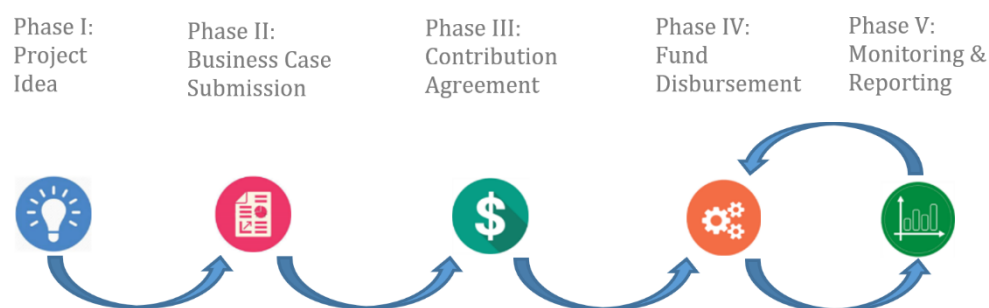
The City Auditor's Office conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

In 2017, in response to prolonged economic challenges, Council approved the establishment of a \$100M Opportunity Calgary Investment Fund (OCIF Reserve) from The City of Calgary's (The City's) reserves. The OCIF Reserve is intended to support projects that will stimulate growth in targeted sectors of Calgary's economy, and serve as a catalyst for economic growth, diversification, and increased employment. In 2018, Council approved the creation of Opportunity Calgary Investment Fund Ltd. (OCIF), a wholly-owned subsidiary of The City to administer the OCIF Reserve. OCIF's mandate, as stated in the Operating and Funding Agreement with The City, is to manage the OCIF Reserve effectively to encourage economic recovery and growth, help reduce the impact of the economic downturn on Calgary's citizens and businesses, and capitalize on new opportunities. As at December 31, 2019, OCIF received 217 ideas, and granted funding for nine projects with a total value of \$23.5M.

The objectives for this audit were to assess the alignment of OCIF's fund administration process, to requirements established in the Operating and Funding Agreement and OCIF Reserve goals, and the effectiveness of process controls to mitigate the significant financial and reputational risks that could impact the achievement of OCIF's mandate.

The fund administration process consists of five main phases:



Based on our review across all five phases of the OCIF fund administration process we concluded current process controls are aligned to OCIF Reserve goals. Recommendations were provided to improve the consistency and transparency of OCIF's evolving fund administration processes and mitigate associated financial and reputational risk. These included process improvements through increased use of quantifiable scoring parameters and consistent document management of key decisions in Phase 1 (project idea submission), as well as additional governance controls to manage potential conflicts of interest.

Although we observed existing process controls were operating as designed to ensure milestones were met prior to fund disbursement, our testing was limited to the total population of disbursements (\$7.05M) as at December 31, 2019. Since all nine approved projects were in the early stages of fund disbursements and the final reports had not been submitted, we encourage OCIF management to periodically assess the effectiveness of the OCIF team's process to monitor and report on the achievement of the objectives and expected benefits specified in the contribution agreements.

OCIF management have agreed with our five recommendations and have set action plan implementation dates no later than May 31, 2020. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

1.0 Background

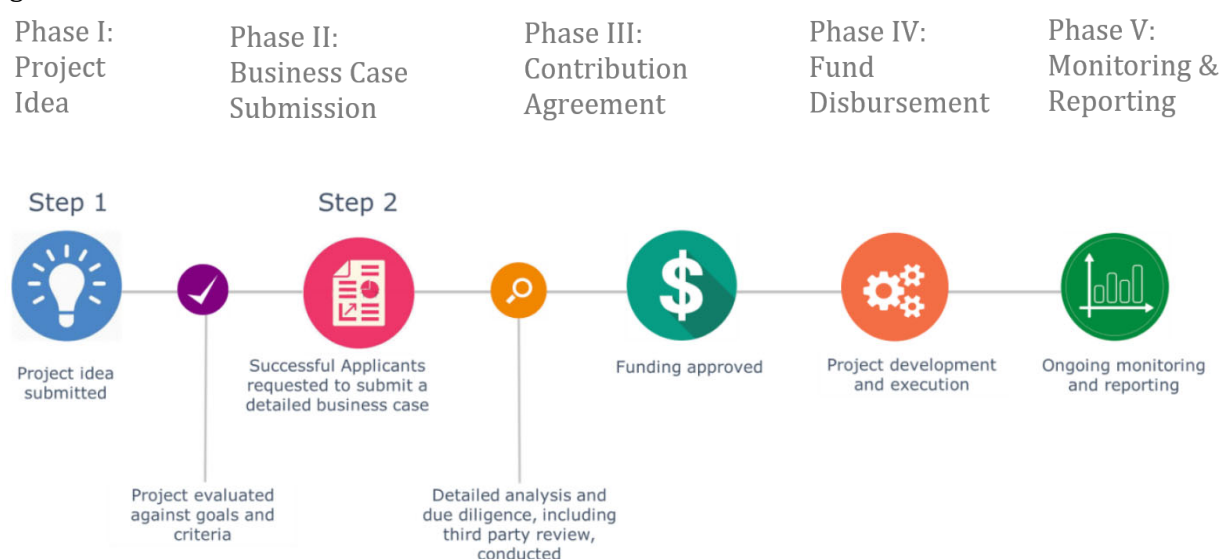
In 2017, in response to prolonged economic challenges, Council approved the establishment of a \$100M economic development fund (OCIF Reserve) from The City of Calgary's (The City's) reserves. The OCIF Reserve is an interest-bearing capital and operating reserve fund managed by The City. In 2018, Council approved the creation of Opportunity Calgary Investment Fund Ltd. (OCIF), a non-profit wholly owned subsidiary of The City. OCIF's mandate is to manage the OCIF Reserve effectively and in a manner that creates an environment within The City that encourages economic recovery and growth, helps reduce the impact of the economic downturn on Calgary's citizens and businesses, and capitalizes on new opportunities to support Calgary's economic success into the future.¹

OCIF's obligations were outlined in an Operating and Funding Agreement with The City to meet Council developed OCIF Reserve goals (i.e. Terms of Reference):

- Help create the right conditions for growth;
- Diversify the local economy;
- Leverage municipal funds for additional private and public sector investments;
- Create and stimulate employment;
- Create a return on investment (both direct and indirect);
- Support the City's downtown vacancy challenges; and
- Increase the City's tax assessment base.

Under the terms of the Operating and Funding Agreement, OCIF entered into an administrative services and fund management agreement with Calgary Economic Development (CED) effective April 19, 2018 to administer the intake and review of applications. OCIF's fund administration process includes five phases in a two-step process as outlined in Figure 1.

Figure 1 - Fund Administration Process²



¹ Recital B of Operating and Funding Agreement between The City of Calgary and Opportunity Calgary Investment Fund Ltd. effective as of the 11th day of May 2018.

² The Opportunity Calgary Investment Fund Program Guide with additional description of the five phases.

The OCIF team began accepting applications on April 25, 2018. OCIF received 217 ideas as at December 31, 2019. Of these 10 were in-progress/on hold, 163 were declined, and 44 were approved for business case submission, including those that received funding approval. The OCIF Board and/or Senior Management Team (SMT) approved nine projects for funding totaling \$23.5M and approved the disbursement release of \$7.05M in project payments³.

Per established processes, the OCIF team evaluates each application independently based on eligibility requirements and expected benefits. To meet eligibility requirements, applicants must be registered to conduct business in Canada and the project must be located in Calgary. Project benefits must also be realized in Calgary. Applicants must also demonstrate that proposed projects are financially sound and sustainable without ongoing funding from OCIF.

The OCIF team evaluates ideas and business cases based on the following criteria:

1. Economic benefits;
2. Job creation;
3. Alignment with key industry and emerging sectors;
4. Innovation and sector benefits;
5. Alignment with strategic initiatives; and
6. Social benefits.

The OCIF administration process includes funding approval by either the OCIF Board (up to \$10M) or Council (more than \$10M) and ongoing monitoring and reporting of approved projects. OCIF's Board of Directors currently consists of eleven members.

An operational audit of OCIF's fund administration was included in the City Auditor's 2020 Audit Plan to provide assurance on the effectiveness of the fund administration process to facilitate decision making regarding utilization of the \$100M OCIF Reserve.

³ OCIF Q4 2019 Quarterly Report.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objectives

The objectives of this audit were to assess:

- Alignment of OCIF's fund administration process to requirements established in the Operating and Funding Agreement and OCIF Reserve goals; and
- Effectiveness of key process steps and controls to mitigate the following three significant financial and reputational risks that could impact the achievement of OCIF's mandate:
 - Investments selected do not provide benefits or meet expectations of the OCIF Reserve;
 - Fund contributions disbursed exceed delivered value; and
 - Processes are not consistent and/or transparent.

2.2 Audit Scope

This audit focused on fund management processes for the period from April 25, 2018 to December 31, 2019 based on applications received by October 31, 2019.

2.3 Audit Approach

Our audit approach included:

- Interviews with the OCIF team and SMT; and
- Reviewing a sample of 22, which was 10% of submitted applications. The sample included all nine approved projects and a representative sample of accepted/declined idea submissions and rejected business cases.

3.0 Results

Results reflect testing across the five phases of the fund administration process as well as evaluation of the governance process that supports the effective delivery of the fund administration process.

Based on our review of OCIF's fund administration process and test results, process controls are aligned to OCIF Reserve goals. Specifically, existing process controls were operating as designed within three (business case submission, contribution agreement and fund disbursement) of the five phases of the process.

Process controls within the monitoring and reporting phase were designed effectively, however, given the early stage of funding disbursements, we were not able to conclude whether projects were continuously evaluated to ensure fund requirements continued to be met or would achieve objectives and expected benefits. We encourage OCIF management to periodically assess the effectiveness of the OCIF team's process to monitor and report on the achievement of objectives and expected benefits specified in contribution agreements.

Specific to the project idea submission phase, process control improvements are recommended to enhance process transparency and consistency.

In addition, we identified opportunities to enhance OCIF's governance framework to further support process transparency. Recommendations are intended to support OCIF's evolving processes and mitigate reputational and financial risk.

3.1 Fund Administration Process (Five Phases)

The following sections outline positive results related to the business case submission, contribution agreement, fund disbursement, and monitoring and reporting phases. We raised two recommendations to address control gaps in the project idea submission review and approval phase which focused on maintaining documentation reflecting all assessment factors to fully support the rationale for decisions (Recommendation 1) and enhancing quantifiable scoring parameters to further demonstrate the consistency and transparency of the scoring process (Recommendation 2).

3.1.1 Project Idea Submission (Phase I)

The OCIF team evaluates ideas based on eligibility, initial scoring against six defined assessment criteria noted previously in 1.0 Background, and an evaluation of due diligence and overall assessment factors.

Idea Submission

OCIF developed a website to provide OCIF program information to applicants including an OCIF program guide, an application guide, contact information, and a link to an online submission portal. Based on our review of a sample of 22 ideas, all but one applicant submitted their application through the portal, which is discussed further under 3.2.2 Exception Management.

We tested the online application process and observed there were no barriers to complete the application and controls to obtain mandatory information were built into

the application process and were operating effectively as designed. We also noted applicants must complete an idea submission form that provides a high-level overview of the project and includes information required to assess eligibility, the six criteria and due diligence, and overall assessment factors. In addition, controls were in place to ensure all submissions were reviewed.

Assessment Criteria-Scoring

The OCIF team advised that they developed a scoring guide upon the launch of the OCIF program, to assist in evaluating over 100 applications received between April 25 and June 30, 2018. Based on refinements identified during this evaluation phase, the OCIF team updated and documented the scoring guide in August of 2018, while maintaining the foundational elements (i.e. six assessment criteria). The purpose of the scoring guide is to set a framework to ensure consistent scoring of assessment criteria. The scoring guide provides descriptions, definitions, and things to consider for the six criteria, including the following eight measurements:

1. Job creation: number of direct jobs;
2. Job creation: quality of the direct jobs;
3. Direct economic benefits;
4. Indirect economic benefits;
5. Innovation and sector benefits;
6. Key industries and emerging sectors;
7. Strategic initiative alignment; and
8. Social benefits.

Per our review of the scoring guide and a sample of 22 ideas, scores for direct jobs created and direct economic benefits were quantifiable and scores for key industries and emerging sectors were clearly defined and supported consistent scoring. Although scores assigned for the remaining criteria were similar, to the extent applicant information was similar, we could not assess overall consistency since quantitative scoring parameters were not clearly defined for all established measurements where applicable. Given the variety and complexity of ideas submitted, some subjectivity is expected to allow flexibility and professional judgment. The consistency of the scoring process can be further enhanced by incorporating quantifiable criteria, where possible, to manage the level of judgment applied for the remaining criteria (Recommendation 2).

Due Diligence and Overall Assessment:

Due diligence is an evaluation of an applicant's ability to implement the project and achieve the stated objectives and benefits. OCIF defined due diligence and overall assessment factors in the OCIF program guide and scoring guide as the following⁴:

- Managerial, technical and workforce capability;
- Technical feasibility;
- Financial and operational risk; and
- Applicant's track record completing projects of a similar type and scope.

The overall assessment is an evaluation of a project's probability of success or failure and the risk versus reward. If a project has a low chance of success, financial red flags,

⁴ The Opportunity Calgary Investment Fund Program Guide Version 1.0

or if the project benefits are not directly flowing to Calgary, an applicant may not move forward.

Once ideas are scored, the OCIF team performs due diligence, considers overall assessment factors and makes recommendations to decline the idea or move it forward to the business case submission phase.

Our review of the idea assessment for 207 finalized ideas between April 25, 2018 and December 31, 2019 indicated that most of the idea decisions were supported by alignment with assessment criteria, while due diligence and overall assessment factors were also evaluated as part OCIF's established process per the following results:

- 163 declined ideas of which:
 - 148 (90%) were supported by lower alignment scores⁵; and
 - 16 (10%) had higher alignment scores⁶ indicating additional factors were considered.
- 44 ideas approved to move forward to business case, of which:
 - 31 (70%) were supported by higher alignment scores; and
 - 13 (30%) had lower alignment scores indicating additional factors were considered.

We reviewed a sample of 22 ideas focused on declined ideas with higher alignment scores and approved ideas with lower alignment scores and noted, although decisions were documented, the evaluation of due diligence and overall assessment factors and the rationale for decisions was not retained consistently during the audit period under review. (Recommendation 1).

Decision Approval:

When the program commenced in April of 2018, the Board made the decision to decline an idea or move it to the business case submission phase based on SMT recommendations and support information. In April of 2019, the Board agreed to allow SMT to make idea decisions to improve the efficiency of the application process. We observed approximately 80% of idea decisions were approved by the Board per the board meeting minutes. Subsequent to April 2019, we observed in the board meeting minutes SMT brought forward the decisions for information.

Communication with Declined Applicants:

OCIF created a declined letter template to advise applicants of the decision, express appreciation for their ideas, and provide available services and support from other organizations that might benefit the applicant's company and project, where applicable. The OCIF team advised they communicate with declined applicants by letter, emails, phone conversations or in a meeting based on OCIF's and the applicant's preference.

3.1.2 Business Case Submission (Phase II)

An applicant is required to submit a business case when their idea is accepted. OCIF has established a business case template to facilitate business case submission. In addition, OCIF implemented an internal due diligence process to analyze and review projects, including factors to consider when hiring third-party reviewers, and an internal due

⁵ Lower alignment scores where less than 60% of assessment criteria were met.

⁶ Higher alignment scores where more than 60% of assessment criteria were met.

diligence report template that is completed and presented to the Board. Per our review of a sample of 12 approved ideas, defined templates were utilized, and third-party reviews were performed for projects with funding over \$1M in accordance with OCIF factors.

Business Case Submission:

The business case template outlines required information from an applicant to enable OCIF to conduct a comprehensive analysis of the six assessment criteria and perform due diligence and an overall assessment of a project. Per our review of a sample of 12 business cases, applicants submitted support information for six assessment criteria, as well as the following required information⁷:

- Organization overview (e.g. overview and financial summary);
- Project overview (e.g. problem or opportunity being addressed, response or solution to the opportunity, OCIF request and project outcomes and deliverables);
- Environment scan (e.g. major demographic, economic, social and political factors, industry trends, target market and competitive environment and regulations);
- Project location (e.g. address of project site, lease agreement);
- Project budget and funding (e.g. confirmed funding, outstanding funding and current debt levels);
- Project milestones (e.g. project activities and GANTT Chart);
- Operational plan (e.g. financial plan and analysis, marketing plan);
- Assumptions, risks and constraints (e.g. key assumptions, risks and contingency plan);
- Additional organization information (e.g. organization ownership, management team, board of directors and advisors, compliance support);
- Disclosures (e.g. legal, conflict of interest and taxes);
- Appendix (e.g. current project jobs, project milestones, project activities and GANTT Chart); and
- Attachments (specified in the Appendix).

Internal Analysis:

The internal analysis has been an evolving process. When OCIF's program first initiated, the OCIF team performed analysis guided by a due diligence checklist. Subsequent to July 2018, the due diligence report template was implemented to capture the results of internal analysis. Of 12 reviewed samples, two were analyzed per the due diligence checklist, while 10 were analyzed per the due diligence report.

The OCIF team advised they verified the applicant provided information for reasonableness, for example, funding from other investors and audited financial statements. The OCIF team also conducted site visits, online research, and had discussions with industry experts to support their comprehensive analysis, which was included in a due diligence report presented to the Board.

The due diligence report provides an overview of:

- Summary;
 - Company and project description
 - Key benefits

⁷ Opportunity Calgary Investment Fund Business Case Template Version 1.4

- Key risk
 - Recommendation to the Board
- 3-Year project funding and costs;
 - Sources of funding
 - Project budget details
- Assessment criteria;
- Due diligence;
- Pro-forma income statement;
- Risk ranking;
- Third-party review (where applicable); and
- Media scan.

Third-Party Review:

As part of due diligence, OCIF may hire third party reviewers taking the following factors into consideration:

- Size of project;
- Complexity of project;
- Political sensitivity; and
- Industry or their expertise not available on the OCIF team.

The OCIF team advised that the third party reviewers provide an independent evaluation of the business case and an ability to access subject matter expertise. Per our observation of all nine approved projects, five projects that had funding over \$1M were reviewed by a third party commissioned by OCIF and evaluated against defined assessment criteria. A third-party review for one project with funding over \$1M was completed by a third party commissioned by the applicant. We observed the Board was informed of the exception, and considered the third party review in their decision. However, the rationale for the exception was not documented, which is discussed further under 3.2.2 Exception Management.

3.1.3 💰 Contribution Agreement (Phase III)

OCIF has developed a contribution agreement template that includes all specified requirements in Section 5.7 of the Operating and Funding Agreement, Contribution Agreements with Beneficiaries. The contribution agreement includes specified terms and conditions that ensure beneficiaries can be held accountable to project timelines and objectives, which mitigates financial risk. The following are key terms and conditions:

- Deliverables and Milestones – a payment schedule (Schedule C) includes milestone dates, description and contribution amount upon milestone completion;
- Reports – a beneficiary must provide reports (Schedule D) certified by a senior officer of the beneficiary by the submission deadline (e.g. milestone report and final report);
- Covenants of the Beneficiary – compliance requirements (e.g. federal, provincial and municipal law specifications in the contribution agreement), and commercial general liability insurance to name OCIF and The City as additional insureds; and
- Contribution Payments – events (e.g. misrepresentation or overpayment) during the period of funding that require the beneficiary to return OCIF funding.

We observed that the contribution agreement for all nine approved projects was developed per the defined template, reviewed by a designated lawyer, signed by the beneficiary's representatives, and authorized by the OCIF Board Chair and Vice Chair, for funding amounts between \$150K and \$10M, or the OCIF CEO and CFO for funding amounts under \$150K.

Prior to finalizing a contribution agreement, the OCIF team and beneficiaries work together to develop a non-binding term sheet that lays out all detailed information and requirements prior to initiating a contribution agreement. The negotiations and term sheets are directed and approved by the Board and signed by the Board Chair and CFO. The OCIF team may further review the funding amount versus project achievement and negotiate with the beneficiary to obtain a better return from the investment. OCIF's funding was between 3% and 31% of the total project costs, which met the contribution requirements of less than 50% of the proposed project's budget.

In addition to the specifications in the contribution agreement template, the term sheet also indicated when and what information was used to make the public announcement of the funding. Per our review, the announcements for nine approved projects were made between 5 and 200 days per contribution agreement execution dates. The timeline between contribution agreement execution and announcement date was dependant on a number of factors including the beneficiary requests. To increase the transparency of the program, OCIF advised they will define a timeline for public announcement and deal with exceptions required to balance beneficiary needs through the exception management process. (Recommendation 4).

3.1.4 Fund Disbursement (Phase IV)

Contribution agreement specified project deliverables and milestones, and reporting requirements facilitate fund disbursement. OCIF has established internal review and/or evaluation procedures to ensure defined milestones are met prior to authorizing the disbursement. As at December 31, 2019, five disbursements were authorized for payment in the amount of \$7.05M. Per our review of all five disbursements, the controls for disbursement were operating effectively as designed, which included the following process:

- Beneficiaries submitted a written claim form (first part of Written Claim & Officer's Certificate) along with a project milestone report with supporting information indicating the project deliverables and milestone requirements were met;
- OCIF's CFO and two OCIF team members signed the officer's certificate form (second part of Written Claim & Officer's Certificate) as acceptance of the written claim, once the OCIF team had completed a milestone progress evaluation report indicating verification of the milestone report and supporting information;
- Beneficiaries provided a commercial general liability insurance certificate that added OCIF and The City as additional insured parties; and
- The request for funds form was authorized⁸ and submitted to The City who disbursed the funds to the beneficiary.

⁸ Payments up to \$150K were authorized by the OCIF CEO and the CFO and payments of more than \$150K were authorized by the OCIF Board Chair and Vice-Chair.

3.1.5 Monitoring and Reporting (Phase V)

Each contribution agreement specifies requirements for submitting progress reports. Mandatory reports included milestone reports and a final report, usually six months to one year after the completion of the project to ensure specified requirements were continuously met during defined period (e.g. created jobs will exist six months after the project completion date). In addition, OCIF may request interim reports and other reports during the term of the contribution agreement and for a period of three years afterwards.

Per our review of nine approved projects, five were required to provide at least one report by December 31, 2019. We observed that required reports were submitted per dates specified in contribution agreements. One beneficiary requested an adjustment to milestone requirements, which was authorized by the OCIF Board Chair and Vice Chair and included in an amended contribution agreement. Another beneficiary requested an extension to a milestone date, which was approved by an OCIF officer and the Board Chair.

Per contribution agreement execution dates, all nine projects were initiated between September of 2018 and October of 2019. Monitoring and reporting requirements were met as at December 31, 2019 and processes were designed effectively. However, testing of operating effectiveness was limited to the first fund disbursement milestone requirements for five projects. Since all nine approved projects were in the early stage of progress, we were not able to test whether projects were continuously evaluated to ensure fund requirements continued to be met or would achieve objectives and expected benefits specified in the contribution agreement.

3.2 Governance Framework

Per our review of the fund administration process and sample testing, we identified opportunities to enhance OCIF's governance framework to further support process transparency in three areas:

- Maintaining documentation reflecting the sub-committee's review and SMT decisions;
- Defining an exception management process; and
- Aligning OCIF officer's conflict of interest declaration to current OCIF Board standards.

3.2.1 Sub-committee's Advice

OCIF established a formal review requirement by a Sub-committee, which is comprised of OCIF board members. The Sub-committee is responsible to review SMT's idea recommendations and business case analysis conducted by the OCIF team and can also be involved, as required, in discussions and negotiations with the applicant and the review and recommendation to proceed with funding a project. The Sub-committee reviews key documents including term sheets that will be brought forward to the Board for decisions on project funding. The intent of the Sub-committee is to serve as an advisory committee to provide feedback and guidance. To that end, meetings are also attended by the SMT and the OCIF team along with external subject matter experts if required.

Although sub-committee meeting agendas included idea recommendations and business case analysis, and attendees indicated the Sub-committee provided independent beneficial advice, there were no meeting minutes. We recommended OCIF

record the Sub-committee's advice and SMT's responses and actions that guide investment decisions to further support an effective governance process (Recommendation 3).

3.2.2 Exception Management

OCIF has established frameworks to facilitate the fund administration process as discussed above. Per our review of a sample of 22 ideas, we observed three instances that didn't follow the established process and the rationale to support the exceptions was not documented. As with any business process, exceptions to OCIF processes are expected, especially given the variety and complexity of applicants and projects. To support process consistency and mitigate reputational risk, OCIF should establish a defined exception management process that includes documentation of the rationale for exceptions and approval required (Recommendation 4).

3.2.3 Declaration of the Conflict of Interest

OCIF implemented processes to effectively manage director conflict of interest in accordance with the OCIF Bylaw Section 4.18 - Conflict of Interest, which states: *"A director or officer who is a party to, or who is a director or officer of or has a material interest in any person who is a party to, a material contract or material transaction or proposed material contract or proposed material transaction with the Corporation shall disclose the nature and extent of his or her interest at the time and in the manner provided by the Act."*

OCIF requires the following declarations for directors:

- Directors' consent, code of conduct and conflict of interest form declaring the director has no present conflict of interest; and
- Conflict of interest declaration including:
 - A list of current boards and committees on which the director serves; and
 - A declaration when a conflict of interest arises, which is a standing item at each board and committee meeting to dynamically identify conflict of interest.Directors shall not vote where there is a conflict of interest.

Per our review, all directors (both current and past) signed the declarations noted above.

We observed the OCIF business case template required the following disclosure from an applicant:

- Conflicts of interest: *"Does the applicant or its directors have any potential conflicts of interests with The City of Calgary or Calgary Economic Development?"*
- Material contracts: *"Is the applicant in default under any significant contract or any financing arrangement?"*

We compared the conflict of interest declarations to the applicants' disclosure for nine approved projects, and reviewed the decision making process from the board meeting minutes when conflict of interest existed and noted:

- Two applicants disclosed their board members were also OCIF board members, which agreed with OCIF board members' declarations; and
- Of these two projects, one had funding less than \$150K, which was approved by OCIF's CEO, while another was approved by the Board and the board member who

declared a conflict of interest “abstained from voting” per the board meeting minutes.

We noted officers were not required to sign conflict of interest declarations where there was no conflict of interest to declare. We recognized an opportunity to enhance controls and recommended an annual declaration by officers of any conflict of interest, including instances where an officer has no conflict of interest to declare, which is aligned to good practice (Recommendation 5).

We would like to thank OCIF and CED staff for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Idea Submission Due Diligence and Assessment

Although the OCIF team performs due diligence and considers overall assessment factors when evaluating ideas, the results of the evaluation of these factors and rationale for recommendations to decline or move forward to the business case submission phase were not consistently documented during the audit period under review. OCIF should formally incorporate the results of due diligence and overall assessment evaluations into the process to evaluate ideas to support the consistency and transparency of recommendations. Decisions that are fully supported by documentation mitigate reputational and financial risk.

The OCIF team's recommendation to decline ideas or move to business case is based on scoring against six assessment criteria, and an evaluation of due diligence and overall assessment factors. Due diligence is an evaluation of an applicant's ability to implement the project and achieve the stated objectives and benefits while the overall assessment is an evaluation of a project's probability of success or failure and the risk versus reward.

The OCIF team advised that the six assessment criteria were evaluated per the scoring guide along with due diligence and overall assessment factors, and the evaluation results were discussed by the OCIF team and the SMT to determine whether ideas should move forward to the business case submission phase. However, documentation to support the decision to move forward or decline ideas based on an evaluation of due diligence and overall assessment and the assessment criteria was not consistently maintained.

We reviewed a sample of 22 ideas that included 12 that moved forward to business case submission and 10 that were declined:

- 10 declined ideas of which:
 - Five (50%) were supported by the evaluation results due to lower alignment scores; and
 - Five (50%) had higher scores indicating due diligence and overall assessment factors were taken into consideration in addition to the evaluation results:
 - One was due to ineligibility since the project would not be located in Calgary; and
 - Four did not have rationale documented that clearly aligned to due diligence and overall assessment factors.
- 12 ideas approved to move forward to business case submission, of which:
 - Nine (75%) were supported by the evaluation results due to higher alignment scores; and
 - Three (25%) had lower alignment scores indicating due diligence and overall assessment factors were taken into consideration. In addition to the evaluation results:
 - One included comments that were aligned to due diligence and overall assessment factors; and
 - Two did not have rationale documented that clearly aligned to due diligence and overall assessment factors.

When ideas meet assessment criteria but do not meet due diligence and overall assessment factors or vice versa, adequate documentation to support the decision to move forward or

decline will increase process consistency and transparency. OCIF should also consider whether additional criteria should be included based on lessons learned to date.

Recommendation 1

The OCIF Chief Financial Officer incorporate additional rigour to ensure decisions are fully supported by documentation reflecting the due diligence and overall assessment factors in the evaluation of ideas, including documentation of results and rationale to support recommendations to decline ideas or move forward to business case submission.

Management Response:

Agreed.

Action Plan	Responsibility
<p>1) The format of the Ideas evaluation was redesigned in 2019 to better reflect the critical items that would lead to a decision, but to also keep pace with the momentum of a perpetually open-call program. The next step in this evolution is to incorporate space within the form for documentation of SMT questions and corresponding answers that are considered action items the OCIF team must report upon that support decisions made.</p> <p>Currently, the OCIF SMT has authority to move an application to business case. Materials presented at the SMT meetings enable proper decision making and include a comprehensive but short-form application scoring evaluation, based on the six Shareholder approved OCIF criteria and an initial internal due diligence report that includes advice on total project assessment factors and the application. The forms are circulated in advance, and the discussion and decisions are made at SMT OCIF meetings.</p> <p>We have commenced minute taking for the SMT meetings to document these decisions. In rare situations where meeting in person is difficult, SMT are sent the materials by email and decisions by each member are provided to the team via reply all. This decision is then documented in the minutes and then addressed at the next SMT meeting.</p>	<p><u>Lead:</u> VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance & Administrative Analyst OCIF Analyst OCIF Team Assistant</p> <p><u>Commitment Date:</u> 1) April 30, 2020 - Minute-taking at both the sub-committee and SMT meeting level have already commenced (and will be ongoing) 2) May 31, 2020 - Decision date and rationale documentation</p>

Action Plan	Responsibility
2) The dates of the decisions made will not only be noted in the minutes, it will be incorporated in the internal due diligence report including any specific rationale, including any decisions that override the recommended actions as documented from one stage gate to the next.	

4.2 Idea Scoring Criteria

Although OCIF developed an idea scoring guide to provide guidance on scoring ideas based on six criteria, the parameters should be further defined to support effectiveness and consistency of application. OCIF should improve the scoring process by incorporating quantifiable criteria where possible to manage the level of judgement applied, facilitate new staff training, and consider applicability of existing criteria included in the ideas scoring process. Quantifiable measurement and criteria that can be easily assessed provide more objective results to support process consistency and transparency and mitigate reputational risk.

Based on our review of the six assessment criteria outlined in the idea scoring guide and a sample of 22 ideas, evaluation for the number of direct jobs created and direct economic benefits were quantifiable and consistently measured. Key industries and emerging sectors were clearly defined, which supported consistent evaluation.

Per our review, parameters to evaluate for the following criteria could be further defined:

- Job creation - quality of direct jobs: Although "low level" is defined as a job that requires little to no education and traditionally pays lower wages, the "high level" definition does not specify the years of experience or education to be considered senior level, and there is no guidance for mid-level jobs.
- Economic benefits - indirect: Shifting economics from one beneficiary to another is defined as "minimal" when for example, benefits shift from one Calgary supplier to another Calgary supplier where there are no expected volume increases and no new benefits. There is no specific guidance on parameters to measure "medium", "high" or "very high" benefits.
- Social benefits: A score is given based on the order of magnitude and number of people affected based on minimal to significant benefits and a few to a large number of people. There were no defined parameters for these magnitude and number ranges.
- Strategic initiative alignment: A score is given based on alignment with other public or private sector initiatives, which may include other government and private funding. We noted that alignment could be defined from minimal to significant and funding from some to significant, however, there were no defined parameters for these ranges.

The innovation and sector benefits criterion rates the impact or "catalytic effect" that the project will have on its sector and is a subjective rating that requires in-depth knowledge of the current state of the sector. The impact is categorized as "low", "medium" and "high" in the idea scoring guide along with guidance on parameters. There may be value in simplifying the ideas scoring for this criterion, given in-depth knowledge is required. We noted that this criterion was assessed more comprehensively by the OCIF team during the due diligence and overall evaluation of ideas once scoring is complete, and the analysis of business case stage.

One option might be to not score this criterion during initial scoring and include it in the evaluation of due diligence and overall assessment factors discussed under Observations and Recommendations 4.1.

Recommendation 2

The OCIF Chief Financial Officer increase effectiveness and objectivity of the scoring process by:

- Incorporating quantifiable parameters where possible; and
- Evaluating whether current criteria should remain in the idea scoring process and/or moved later in the evaluation process.

Management Response:

Agreed.

Action Plan	Responsibility
<p>As the program has evolved, it has been identified that a certain degree of qualitative interpretation is necessary, while addressing the variability of submissions. OCIF will address the diverse Applications by adding additional parameters with guidance on how to use the evaluation to maintain flexibility.</p> <p>The OCIF team will supplement the short form scoring evaluation with a quantitative checklist that will calculate the scores for each of the criteria, this will provide information to support consistency, transparency and mitigate reputational risk. To facilitate the need for judgement and flexibility for unique circumstances and the catalytic effect; the process will allow the score to be overridden with any deviations explained. This information will be provided to the SMT as part of their decision-making process to approve or decline applications.</p>	<p><u>Lead:</u> VP Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Analyst</p> <p><u>Commitment Date:</u> May 31, 2020</p>

4.3 Sub-committee's Review Process

Although idea recommendations and business case analysis were included on sub-committee meeting agendas, there were no sub-committee minutes documenting the Sub-committee's advice or the OCIF team's responses and follow-up actions. OCIF should implement a process to ensure documentation is maintained, particularly where SMT action is different than the original recommendation. Documenting the Sub-committee's advice and SMT's responses will support appropriate segregation of duties between the Sub-committee and SMT. In addition, documentation supports an effective governance process, which mitigates reputational risk.

We reviewed 11 sub-committee meeting agendas between September 7, 2018 and November 25, 2019, and observed the following information was included in the agenda items:

- The OCIF program overview:
 - Program and application summary
 - Application approval:
 - Red: declined
 - Green: moved to business case
 - Yellow: application review
- Business case update:
 - Internal review and recommendations
 - Due diligence report
 - Draft term sheet and term sheet
 - Draft contribution agreement
 - Contribution agreement

Per our review of sub-committee meeting agendas, the OCIF Board Chair and Vice Chair attended most of the meetings, along with the SMT, internal (i.e. OCIF team) and external (i.e. guest) subject matters experts to review SMT's idea recommendations and business case analysis. OCIF sub-committee meeting attendees indicated the Sub-committee provided independent advice on idea recommendations, as well as advice related to business case analysis, including OCIF's internal due diligence reports and third-party review reports. However, there were no meeting minutes indicating the advice and SMT's responses and actions.

Recommendation 3

The OCIF Chief Financial Officer implement a process to record the Sub-committee's advice and SMT's responses and follow-up actions.

Management Response:

Agreed.

Action Plan	Responsibility
<p>We have commenced minute-taking at both the OCIF SMT and OCIF sub-committee meetings, which will include action items to be executed. We also now maintain an ongoing 'Bring Forward List' of Sub-committee action items that are tabled at each Sub-committee meeting to demonstrate progress and completeness of previous action items. We will also implement an OCIF SMT Bring Forward List and minutes to be tabled at the following OCIF Sub-committee meeting.</p> <p>The roles and the responsibilities of the OCIF SMT and the OCIF Sub-committee will be added to the corporate policies.</p>	<p><u>Lead:</u> VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance and Administrative Analyst (Sub-committee Recording Secretary) OCIF Team Assistant (OCIF Senior Management Team Recording Secretary)</p> <p><u>Commitment Date:</u> May 31, 2020</p>

4.4 Exception Management Process

OCIF has not established a formal process to manage exceptions to established fund administration processes. As with any business process, there will be exceptions to OCIF processes, especially given the variety of applicants and projects. OCIF should establish an exception management process, to ensure the exception does not provide an applicant with an unfair advantage. A defined process that includes documentation of rationale and approval required, supports consistency, transparency and mitigates reputational risk.

During fieldwork we noted three exceptions to established OCIF fund administration processes. OCIF advised they do not have an exception management process and the rationale for these exceptions was not documented.

Applicants are expected to complete an idea submission form through OCIF's online portal. Submitted information is maintained in the portal, while project information and scores are retained in a master spreadsheet. OCIF accepted one application that was not submitted through the portal. We reviewed the master spreadsheet and observed scores for that project were not included on the spreadsheet. OCIF advised these exceptions were at the request of the applicant based on confidentiality concerns.

In addition to OCIF's business case analysis and internal due diligence, OCIF may send a business case to a third-party reviewer. The decision to request a third-party review is based on the size and complexity of the project, political sensitivity, and industry or other expertise not available in CED. We reviewed nine approved projects during our audit period and observed that OCIF commissioned third-party reviews for all but one project with funding over \$1M (six in total). Although the applicant had commissioned a project review by an independent third party, which was communicated to OCIF's Board, the review did not follow OCIF's standard third party format evaluating six OCIF criteria.

When a project is approved for funding, the OCIF team works with the beneficiary to lay out all the terms and conditions including the public announcement date in the term sheet before finalizing the contribution agreement. We reviewed the execution date of the contribution agreement for all nine approved projects and observed that five of them were announced within two months (between 5 days and 38 days), two were announced within three months (62 days and 70 days, respectively), and two were announced over three months later (113 days and 200 days, respectively). OCIF's objective is to announce on a timely basis while balancing beneficiary needs and reporting requirements. However, OCIF has not specified public announcement timelines for approved projects.

Recommendation 4

The OCIF Chief Financial Officer establish an exception management process including:

- Documentation of rationale for the exception; and
- Level of approval required.

Management Response:

Agreed.

Action Plan	Responsibility
<p>OCIF will create a public announcement policy (within 60 days of execution of contribution agreement) and third-party review policy to support consistency and mitigate risk.</p> <p>This will be further supported by an exception policy for the entire program requiring approval by the OCIF SMT, Sub-committee or Board as appropriate.</p>	<p><u>Lead:</u> CFO, OCIF VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance and Administrative Analyst OCIF Manager OCIF Analyst</p> <p><u>Commitment Date:</u> May 31, 2020</p>

4.5 Officers' Disclosure of Conflict of Interest

OCIF did not maintain documentation when OCIF officers, CEO and CFO, had no conflict of interest to disclose. OCIF should require officers to explicitly declare they have no conflict of interest and retain this disclosure in their records to mitigate reputational risk.

The OCIF Bylaw Section 6.10 - Conflict of Interest states: *"An officer shall disclose his or her interest in any material contract or material transaction or proposed material contract or proposed material transaction with the Corporation in accordance with section 4.18"*. Upon our inquiry, OCIF advised there was no record of the disclosure since OCIF officers didn't have a conflict of interest as described in the bylaw. Per our review of OCIF's Board approved business plan document, all agreements up to \$150K can be signed by OCIF's CEO and CFO. Of nine approved projects, two were \$100K and signed by OCIF's officers.

It is good practice to require an annual declaration by officers of any conflict of interest, including instances where an officer has no conflict of interest to declare.

Recommendation 5

The OCIF Chief Financial Officer require officers to sign-off on a conflict of interest declaration annually, including instances where there is no conflict to declare.

Management Response:

Agreed.

Action Plan	Responsibility
<p>The OCIF officers as listed under the management services agreement, will annually acknowledge all policies, including a conflict of interest policy.</p> <p>At the commencement of every OCIF SMT meeting, the OCIF officers will declare any conflict of interest and it will be a standing agenda item. There will be a running report tabled at each OCIF SMT meeting, which will also be reflected in the official meeting minutes.</p>	<p><u>Lead:</u> CFO, OCIF VP, Operations & Corporate Projects</p> <p><u>Support:</u> OCIF Corporate Governance & Administrative Analyst OCIF Team Assistant</p> <p><u>Commitment Date:</u> April 30, 2020</p>



Calgary
City Auditor's Office

ISC: Unrestricted
AC2020-0764 ATT2

Opportunity Calgary Investment Fund Administration Audit

Opportunity Calgary Investment Fund

Economic Benefits

Innovation and Sector Benefits

Alignment with Strategic Initiatives

Job Creation

Alignment with Key Industries

Social Benefits



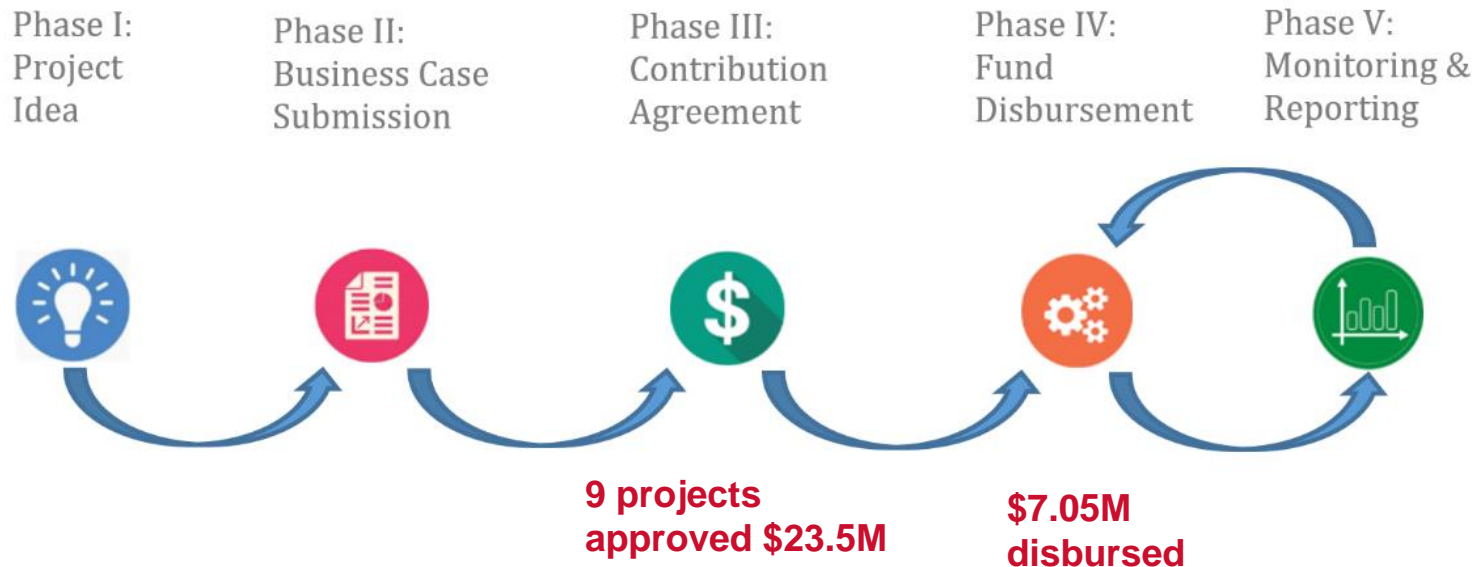
Calgary

City Auditor's Office

ISC: Unrestricted
AC2020-0764 ATT2

Opportunity Calgary Investment Fund Administration Audit

Five Phases of the Fund Administration Process





Calgary

Opportunity Calgary Investment Fund Administration Audit

City Auditor's Office

Why we did this

- Assess the effectiveness of OCIF's fund administration process controls

What we concluded

- OCIF's fund administration process is aligned to reserve goals
- Controls were designed and operating effectively in Phases 2 to 4, and designed effectively in Phase 5
- Improvements required:
 - Documentation to support decisions
 - Increase quantifiable scoring measures in Phase 1
 - Enhance the governance framework for process transparency and managing potential conflicts of interest

Why it matters

- OCIF's fund administration process must be consistent and transparent to mitigate reputational and financial risks

Calgary Fire - Inspections Audit

EXECUTIVE SUMMARY

The City Auditor's Office issued the Calgary Fire Inspections Audit Report to Administration on July 14, 2020. The report includes Administration's response to seven recommendations raised by the City Auditor's Office to Calgary Fire Department's (CFD) Fire Inspections team. Administration accepted all recommendations and has committed to the implementation of action plans no later than December 31, 2021. The City Auditor's Office will track the implementation of these commitments as part of our ongoing follow-up process.

CITY AUDITOR'S RECOMMENDATIONS

1. That Audit Committee receive this report for the Corporate Record; and
2. That 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. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2019/2020 Annual Audit Plan was approved on September 18, 2018. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

This audit was undertaken as part of the approved City Auditor's Office 2019/2020 Annual Audit plan due to the importance of Fire Inspections and Enforcement in supporting Council's priority of A City of Safe & Inspiring Neighbourhoods by preventing fires and saving lives. The objective of this audit was to assess the effectiveness of the Risk-Based Inspection (RBI) Program in mitigating the fire safety risk associated with higher-risk buildings.

CFD's Fire Inspections team perform compliance inspections to ensure properties meet the requirements of the Alberta Fire Code.

CFD identified that fire risk in Calgary is increasing and communicated to Council that they would like to respond through a new model, the Risk-Based Inspection (RBI) Program and Apartment Building Compliance Program (ABCP). These were to be piloted in the 2019-2022 One Calgary Service Plans and Budgets cycle. The ABCP would have required upgrades to pre-1974 apartment buildings, which were not built to a uniform fire code, to improve fire safety. However, as the province withdrew the 1996 fire code ruling, the ABCP upgrades relied on, it did not proceed. Pre-1974 apartment buildings will continue to be part of the RBI Program.

The RBI Program is currently in a pilot phase and proactively inspects higher-risk buildings based upon its occupancy classification. In 2020, Fire Inspections started a project to move the RBI Program to a dynamic model that will consider more factors to identify and prioritize RBI. The RBI Program is in addition to CFD's existing request and complaint-based inspection model, which is provincially accepted and documented in CFD's Quality Management Plan.

Calgary Fire - Inspections Audit

INVESTIGATION: ALTERNATIVES AND ANALYSIS

RBI pilot was assessed as a positive step towards mitigating the increased risks associated with high-risk occupancies for the public. The audit determined greater focus and effort are required to ensure the program effectively addresses public safety.

For all inspection types, Fire Inspections understands some code changes have restricted the ability of Safety Codes Officers to require building upgrades to mitigate fire safety risk. A formal process is not in place to assess and communicate these regulatory risk exposures. Working within these regulatory constraints, Fire Inspections successfully targeted a high-risk occupancy classification and resolved significant violations demonstrating the value of the RBI Program in improving fire safety. The audit identified a greater number of RBI could have been completed had Fire Inspections' ability to assign Safety Codes Officers to RBI not been impacted by Quality Management Plan responsibilities, position vacancies and absences. Fire Inspections also need to improve the identification and prioritization of high-risk buildings (beyond occupancy classification). Fire Inspections has already initiated a project to move to a dynamic framework, which will allow more precise determination of high-risk.

Our three highest priority recommendations, discussed in greater detail within the attached report, focus on the areas of managing regulatory risk and increasing the number of RBI completed. Two recommendations focus on cost effective controls to manage model risk, for incorporation into the project to develop the dynamic inspection model. A final two recommendations were viewed as being readily implementable in the current pilot to mitigate the risk of accidentally missing an inspection.

Stakeholder Engagement, Research and Communication

This audit was conducted with the Fire Inspections team acting as the principal audit contact within Administration.

Strategic Alignment

Audit reports 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)

Not applicable.

Financial Capacity

Current and Future Operating Budget

Not applicable.

Current and Future Capital Budget

Not applicable.

Calgary Fire - Inspections Audit

Risk Assessment

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

This audit was included in our 2019/2020 Annual Audit Plan due to the importance of the Fire Inspections team in supporting Council's priority of A City of Safe & Inspiring Neighbourhoods by preventing fires and saving lives.

REASONS FOR RECOMMENDATIONS

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

ATTACHMENT

1. Calgary Fire - Inspections Audit Report
2. Calgary Fire - Inspections Audit Presentation Slides



City Auditor's Office

Calgary Fire – Inspections Audit

July 14, 2020

THIS PAGE LEFT INTENTIONALLY BLANK

Table of Contents

Executive Summary	5
1.0 Background	6
2.0 Audit Objective, Scope and Approach	8
2.1 Audit Objective	8
2.2 Audit Scope	8
2.3 Audit Approach	8
3.0 Results.....	9
3.1 Managing Regulatory Risk	9
3.2 Current Occupancy Based Pilot.....	9
3.3 Future State	12
4.0 Observations and Recommendations	13
4.1 Regulatory Risk Communication and Response.....	13
4.2 Risk-based Inspection Program - Objectives.....	14
4.3 Dynamic Model Development - Model Risk	16
4.4 Communication of Model Risk Exposure	18
4.5 ArcGIS Layer Access Review	19

The City Auditor's Office conducted this audit in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

Calgary Fire Department's (CFD) Fire Inspections team perform compliance inspections to ensure properties meet the requirements of the Alberta Fire Code. The City's inspection model, documented in its Quality Management Plan (QMP) and accepted by the province, is based upon responding to requests or complaints. CFD identified that fire risk in Calgary is increasing and communicated to Council that they would like to respond through a new model, the Risk-Based Inspection (RBI) Program and Apartment Building Compliance Program (ABCP) to be piloted in the 2019-2022 One Calgary Service Plans and Budgets cycle.

Our audit objective was to assess the effectiveness of the RBI Program in mitigating the fire safety risk associated with higher-risk buildings.

RBI proactively inspects higher risk buildings. Currently, RBI is in a pilot phase where a property's fire risk is based upon its occupancy classification. In 2020 Fire Inspections started a project to move the RBI Program to a dynamic model that will consider more factors to identify and prioritize RBI. The ABCP would have required upgrades to pre-1974 apartment buildings, which were not built to a uniform fire code, to improve fire safety. Although the ABCP will no longer continue as the province withdrew the 1996 fire code ruling this program relied on, pre-1974 apartment buildings are included in the RBI Program.

For all inspection types, Fire Inspections understands some code changes have restricted the ability of Safety Codes Officers (SCO) to require building upgrades to mitigate fire safety risk. A formal process is not in place to assess and communicate these regulatory risk exposures. Working within these regulatory constraints, RBI successfully targeted a high-risk occupancy and resolved significant violations demonstrating the value of the program in improving fire safety. A greater number of RBI could have been completed had Fire Inspections' ability to assign SCO to RBI not been impacted by QMP responsibilities and position vacancies and absences. Fire Inspections also need to improve the identification and prioritization of high-risk buildings. Fire Inspections has already started to address risk prioritization through their project to move to a dynamic framework, which will allow more precise determination of high-risk.

In summary, although the RBI pilot is a positive step towards mitigating the increased risks associated with high-risk occupancies for the public, greater focus and effort is required to ensure the program effectively addresses public safety. Our three highest priority recommendations, discussed in greater detail within this report, focus on managing regulatory risk and increasing the number of RBI given their value. We also made two recommendations for cost effective controls to manage model risk, for incorporation into the project to develop the dynamic inspection model. Finally, we made two recommendations readily implementable in the current pilot to avoid the risk of accidentally missing an inspection.

We believe management actions currently underway combined with our recommendations provided in this report will result in an effective program to mitigate public fire safety risk. Fire Inspections has agreed to all seven recommendations and has committed to action plan implementation dates no later than December 31, 2021. The City Auditor's Office will follow-up on all commitments as part of our ongoing recommendation follow-up process.

1.0 Background

Calgary Fire Department's (CFD's) Fire Inspections & Enforcement service line provides fire inspections of multi-residential, commercial, industrial and assembly structures, fire code consultation and related technical services to:

- Enhance public safety;
- Ensure compliance with legislation;
- Minimize fire-related risks; and
- Protect lives, property and the environment.

The City of Calgary (The City) is an accredited municipality under the Alberta Safety Codes Act, which provides CFD with enforcement authority to review and inspect buildings to ensure they meet the codes, standards and regulations for the fire discipline¹. Accredited status is based upon the submission and approval of a Quality Management Plan (QMP) outlining The City's inspection model.

Under the current inspection model, Safety Codes Officers (SCO) on the Fire Inspections team complete inspections to ensure code compliance as part of the business licensing process, and to respond to concerns raised by members of the public, and CFD crews. Compliance inspections are scheduled via a 311 service request.

CFD's 2019 – 2022 One Calgary Service Plans and Budgets submission notes fire risk is increasing due to several factors including reduced maintenance on building life safety systems following the economic downturn, the increased vacancy rate, aging infrastructure, fire-prone business activities (such as paint booths), and careless behaviours that increase the risk of fires (e.g. careless cooking and smoking). Fire Inspections responded to this increased risk by introducing the Risk-Based Inspection (RBI) Program pilot in October 2018 to proactively conduct RBI.

In addition, on April 4, 2019, CFD provided Council with a briefing note that outlined an Apartment Building Compliance Program (ABCP) to address the risks specific to pre-1974 apartment buildings. Apartment buildings constructed prior to April 1974 were not constructed to a uniform building code. Enforcement authority for the ABCP was based upon a November 1996 Fire Code ruling, which provided reasonable measures for meeting minimum safety standards for residential buildings constructed prior to April 1, 1974. This was an approved guideline under the 1992 Alberta Fire Code and was published by Alberta Municipal Affairs Safety Services in the form of a STANDATA bulletin.

CFD reported its intent to evaluate pre-1974 buildings and require upgrades as part of the RBI Program in an April 4, 2019, Council Briefing. This briefing also indicated that Calgary was the last major municipality to implement an ABCP. CFD advised that the STANDATA resulting from the 1996 fire code ruling had been withdrawn in late 2019². As a result, the ABCP would no longer proceed as intended since CFD did not have the authority to enforce the upgrades. Although pre-1974 apartment buildings would continue to be part of the RBI Program, these inspections would not require the upgrades provided for under the 1996 fire code ruling that would have resulted in

¹ Alberta Fire Code

² <https://open.alberta.ca/dataset/f756585e-2808-4544-a808-fe92b4bc6d67/resource/d7c64318-a319-4559-aca7-3aaab07e8e68/download/fcr12-1.pdf>

improved mitigation of fire safety risk exposure.

This audit was included in our 2019 audit plan due to the importance of Fire Inspections and Enforcement to support Council's priority of A City of Safe & Inspiring Neighbourhoods by preventing fires and saving lives. The audit focused on the RBI Program since inspections under the program focused on buildings that may not have been subject to an inspection for several years.

2.0 Audit Objective, Scope and Approach

2.1 Audit Objective

The objective of this audit was to assess the design and operating effectiveness of the RBI Program to mitigate the fire safety risk associated with higher-risk buildings.

2.2 Audit Scope

The scope of this audit included the RBI Program, since the buildings covered by the program represents the highest risk to public safety. Sample testing of individual RBI was evaluated for the period of January 1, 2019 – October 31, 2019. Completeness and accuracy of the list of high-risk buildings and forecasting completion of inspections were evaluated at the time of testing. The data analysis shown in our results section is for properties that had their first RBI in 2019.

QMP based inspections are not included in the scope of the audit.

2.3 Audit Approach

Our audit approach included assessing:

- The effectiveness of the design of the RBI Program against National Fire Protection Agency (NFPA) standards and good practice from other municipalities;
- Whether the model was effectively applied to develop the initial list of high-risk properties;
- The design and operating effectiveness of controls to update the list of high-risk properties and ensure accuracy and completeness;
- The design and operating effectiveness of controls to ensure deficiencies identified through inspections are addressed and escalated to ensure timely compliance;
- The status of the RBI Program and whether high-risk inspections will be completed in a timely manner based on NFPA standards; and
- The effectiveness of risk mitigation processes for residential buildings constructed prior to April 1, 1974.

3.0 Results

RBI, as with all other fire inspections types, operate within a provincial regulatory framework that establishes fire safety requirements that property owners need to meet. Operationally Fire Inspections understands some code changes have restricted the ability of SCO to require building upgrades to mitigate fire safety risks. However, a formal process is not in place to assess and communicate these regulatory risk exposures.

Fire Inspections initiated their RBI Program pilot in October 2018 with the intention of gathering baseline data on the number of inspections completed. By the end of 2019 they had completed inspections on 158 properties including resolving all associated violations. Fire Inspections' approach in the pilot phase was to select buildings using their occupancy classification. Individual RBI inspections were effective in mitigating safety risks in high-risk buildings to the extent achievable within the existing Alberta Fire Code. SCO visited high-risk occupancies and successfully worked with owners to resolve violations. However, a greater number of RBI could have been achieved if Fire Inspections' ability to assign SCO to RBI had not been impacted by QMP responsibilities and position vacancies and absences.

Fire Inspections will continue their occupancy-based pilot for approximately two more years after which they expect to move to a new dynamic data driven RBI model (Dynamic Model). Fire Inspections has already initiated their project to move to a dynamic framework, which will allow a more precise identification and prioritization of high-risk inspections. At present the maturity of the RBI Program requires enhancement to effectively support mitigation of the risk that high-risk buildings are unsafe for the public. We believe management actions combined with our recommendations below will help the RBI Program develop into an effective program to better mitigate fire safety risk.

Our detailed results have been organized based on priority and impact, starting with managing regulatory risk, followed by the current occupancy-based RBI Program pilot, and concluding with an evaluation of the future RBI state.

3.1 Managing Regulatory Risk

SCO enforcement authority is derived from the provincial Alberta Fire Code. Changes to the provincial fire code occur on an ongoing basis through published STANDATA bulletins. During the audit we were made aware of changes related to pre-1974 apartment buildings and residential dwellings for persons with developmental disabilities that have restricted the ability of SCO to require upgrades to mitigate safety risks.

Fire Inspections indicated they captured the risk associated with the pre-1974 apartment buildings in their service line risk register and operationally are aware of the impact of STANDATA changes. However, there is no formal process in place to assess and, where appropriate, communicate these types of risk exposures to the Administrative Leadership Team and/or Council. We made a recommendation to implement such a process (see section 4.1).

3.2 Current Occupancy Based Pilot

We conducted data analysis using 2019 data to evaluate the contribution the RBI Program made to mitigating fire risk and protecting public safety. Our infographic, figure 1, is based upon the 107 properties that had their first inspection in 2019.

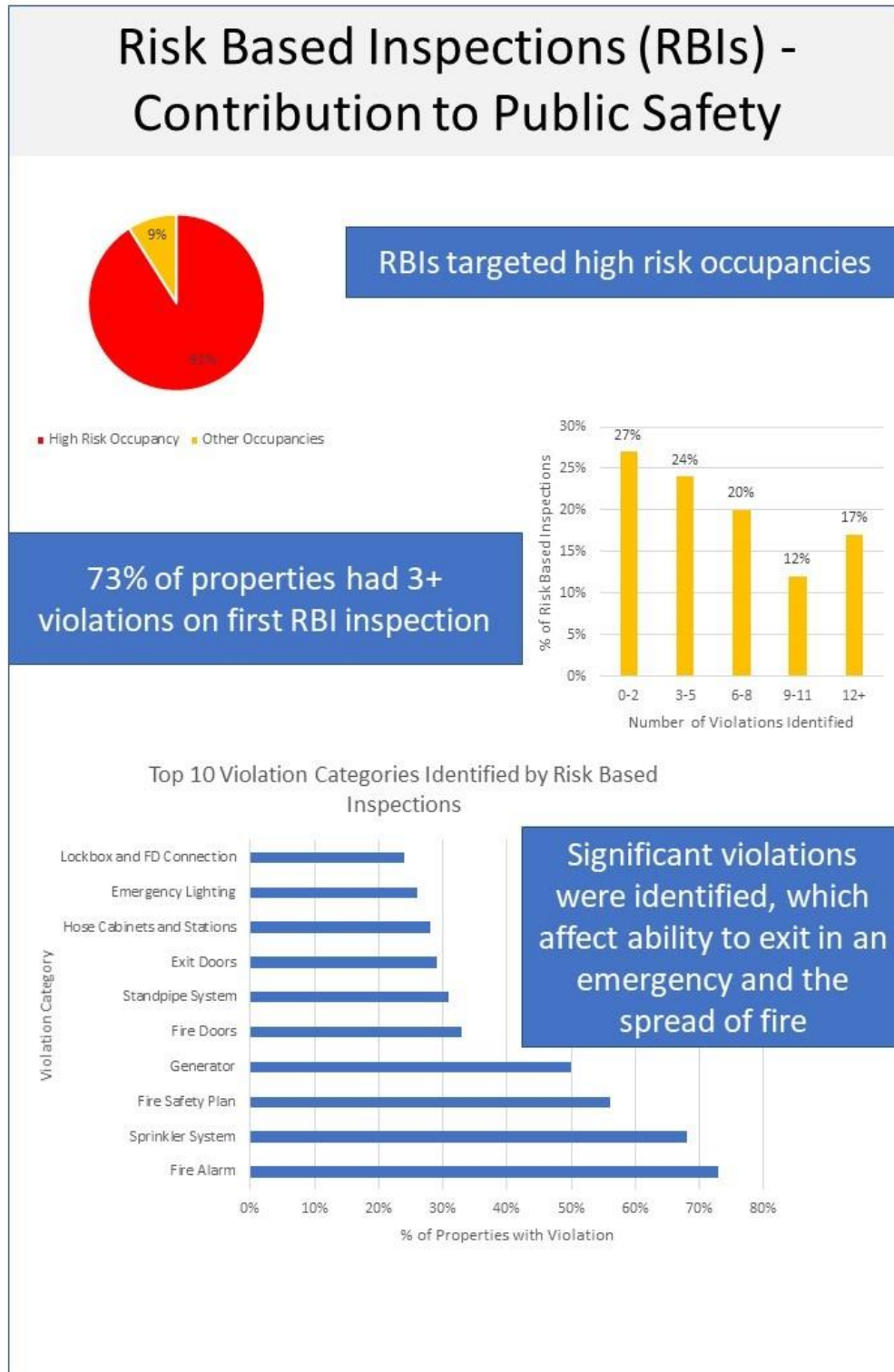


Figure 1: Risk Based Inspections - Contribution to Public Safety

We conducted testing on twelve properties that required three or more inspections to resolve violations identified. We confirmed that Fire Inspections was successful at working with owners using their enforcement powers to resolve outstanding violations. This confirms the value of the program, shown through our data analysis previously, since violations identified are remediated.

The initial listing of high-risk properties developed for the RBI pilot provided a reasonable basis to start the program and is sufficient until Fire Inspections moves to their future state Dynamic Model in 2022. We reviewed this listing and confirmed it captured properties within the high-risk occupancies that Fire Inspections initially identified for inclusion. Longer term the listing is not a sustainable solution as there are no processes to update it and those not directly involved in its initial creation do not have complete understanding of its contents. We expect Fire Inspections' upcoming move to a dynamic model will address the sustainability of the listing. For this interim phase we made an additional recommendation (see section 4.5) to reduce the risk that a high-risk property is not inspected due to accidental changes in this list.

The key area for improvement for the current occupancy-based pilot is increasing the number of inspections that are performed (see section 4.2). The focus during the initial phase of the pilot was inspecting high rise apartment buildings that are over six stories tall. We analyzed data available at the time of testing (October 2018 - November 2019) to forecast the time to complete the remainder of apartment buildings over six stories tall on the list. Management estimated approximately 1.75 resources were applied to these inspections and going forward expects it to increase to 2.75 resources. Based upon these resourcing levels we estimate it will take approximately 12 months to complete the remaining buildings bringing the total time to 26 months, a time span which falls below annual best practice expectations³.

Part of the reason for limited resources was the assignment of SCO to work on inspections under other inspections required under the QMP and position vacancies. Our recommendation (see section 4.2) for setting objectives for the RBI Program is designed to give the program greater visibility and increase accountability for completion, which supports effective resource allocation. There is a potential opportunity to redeploy additional resources to the program given less resources are expected to be required to support occupancy inspections due to 2020 changes in procedures with Calgary Building Services. Longer term, Fire Inspections may consider revisions to the QMP and to the RBI program to allow greater flexibility in resource allocation.

Finally, we tested controls to ensure Fire Inspections was collecting reinspection fees. In our testing of 20 re-inspections we noted revenue leakage of \$8,000, which was a result of a manual process for billing reinspection fees. We provided a low-cost value add opportunity to improve controls in this area. Fire Inspections advised they will be introducing a reconciliation between the FireHub system, used to record inspections, and the Corporate Billing & Accounts Receivable system to address this opportunity.

³ National Fire Protection Association guidance, which are considered best practice by Fire Inspections, recommends high-risk classifications are inspected annually. Although Fire Inspections want to meet or exceed NFPA Standards, the standards are not part of their mandate.

3.3 Future State

In early 2020, Fire Inspections initiated a project to transition from their current RBI model to a Dynamic Model that will consider factors beyond occupancy classification. This approach aligns with leading models such as FireBird (Atlanta Fire Department), Metro21 Fire Risk Prediction Model (Pittsburgh) and Fire Cast (New York Fire Department). These other factors include items such as fire history, age and construction material. A successful transition to this approach would enhance Fire Inspections' ability to prioritize limited resources than their current occupancy-based model allows.

As advantageous as this Dynamic Model may be it does increase model risk which is the potential for adverse consequences from decisions based on incorrect or misused model outputs and reports. Analyzing more factors increases the model's complexity and requires a greater number of data sources. We have raised recommendations to implement appropriate control measures at the early stages of this project, which is more cost effective (see section 4.3 and 4.4) in the long run.

We would like to thank staff from Fire Inspections for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Regulatory Risk Communication and Response

The withdrawal of the STANDATA bulletin related to pre-1974 apartment buildings, which resulted in CFD cancelling the previously announced ABCP, was not reported to Council. CFD operate within a provincial regulatory framework, which includes the Alberta Fire Code. Changes to the Alberta Fire Code occur on an ongoing basis through published STANDATA bulletins. Some code changes have restricted the ability of SCO to require building upgrades to mitigate fire safety risks, which prevents loss of life. Although operationally CFD is aware of these impacts and indicated they recorded the risk associated with the apartment buildings in their service line risk register, a formal process is not in place to assess and, where appropriate, communicate these types of regulatory risk exposure to the Administrative Leadership Team and/or Council.

Pre-1974 Apartment Buildings and Apartment Building Compliance Program

As noted in the Background section, the ABCP is no longer proceeding as intended since CFD does not have the authority to enforce upgrades. Although pre-1974 apartment buildings will continue to be part of the RBI Program, these inspections will not require the upgrades provided for under the 1996 Fire Code Ruling that would have resulted in improved mitigation of fire safety risk exposure.

We noted the list of 322 high-rise apartment buildings on the RBI list includes 89 high-rise apartment buildings classified as pre-1974. SCO completed RBI on 44 of these buildings bringing their existing building systems into compliance. However, these inspections did not require the upgrades noted above.

Other STANDATA Changes: Residential Dwellings for Persons with Developmental Disabilities

During the audit, we also were made aware of the December 2016 decision by Alberta Municipal Affairs to withdraw the August 2015 STANDATA guidelines to improve fire and life safety in existing dwellings that have undergone a “change of use” to a residential support dwelling or a residential care dwelling under the Government of Alberta’s Persons with Developmental Disabilities program⁴. Some of the buildings are being used as “Residential Detention Dwellings” where individuals with developmental disabilities are confined or secured in spaces or bedrooms from which they cannot leave of their own volition. The 2015 guideline was developed because of the fatality of an Edmonton woman⁵. Discussions with CFD indicated that they had received direction from the province not to inspect group homes.

Recommendation 1

The Deputy Fire Chief:

- Implement a process to assess the impact of STANDATA bulletins (including their withdrawal) on Fire Inspections’ ability to mitigate fire safety risk through the RBI Program and/or other programs.

⁴ <https://open.alberta.ca/dataset/eaf11cf0-b5b5-4175-a69d-db1c46f77c51/resource/1226174c-9d48-4850-8957-2afdc7c662de/download/2015-08-pdd-safety-standards-withdrawn.pdf>

⁵ <https://open.alberta.ca/dataset/6481eec4-b44d-43dc-958c-7e8bd1f7de1a/resource/609aed3e-58c8-4c74-9793-aa07849818f1/download/01207-report-to-minister-into-death-of-marilyn-may-lane.pdf>

- Communicate risk exposure through The City's Integrated Risk Management program and directly to the General Manager of Community Services. Risk exposure that cannot be adequately mitigated through the existing regulatory framework and the cancellation of a previously reported program should be reported to the Administrative Leadership Team and/or Council.

Management Response

Agreed.

Action Plan	Responsibility
The Deputy Chief, Risk Management will implement a process to assess and communicate any risks arising from Provincial STANDATA's or other regulatory changes that will impact Fire Inspections and Enforcement. Any regulatory change impacts will be captured in a briefing note that will be discussed with the GM, Community Services who will determine the best way to communicate to ALT and/or Council.	<u>Lead:</u> Deputy Chief, Risk Management <u>Support:</u> Manager, Strategic Services <u>Commitment Date:</u> December 31, 2020

4.2 Risk-based Inspection Program - Objectives

Fire Inspections' ability to assign SCO to RBI in the pilot phase was limited due to QMP responsibilities and position vacancies. Although SCO inspected 135 buildings in a high-risk occupancy classification in the first 14 months⁶ of the pilot phase, more inspections could have been completed with additional resources. Fire Inspections should evaluate the RBI Program pilot and develop objectives for the next phase of the program considering further prioritization of high-risk properties based on defined criteria, available resources, and expected level of coverage. The next phase will cover an interim period of approximately two years until the planned Dynamic Model can be implemented. Setting objectives for the next phase supports prioritization of resources on the properties that represent the greatest safety risk.

Fire Inspections created an initial list of risk-based properties based on occupancy classification and tracked progress using a dashboard. In the first 14 months of the RBI Program, the focus of the program was on the high rise building over six stories occupancy classification. Fire Inspections completed 135 inspections in that classification using 1.75 SCO. Management estimated the resources dedicated to the pilot phase taking into account the assignment of RBI to three SCO, staff vacancies and long-term absences, and responsibilities to complete QMP inspections. Assuming an increased complement to 2.75⁷ SCO, it will take 12 months to complete the 187 remaining buildings in the occupancy classification for a total

⁶ CFD's 2019 – 2022 One Calgary Service Plans and Budgets submission included an increase of one SCO to RBI in each year.

inspection time of 26 months. NFPA Standard 1730 (6.7) recommends an annual inspection of a high-risk classification. Management advised NFPA Standards are best practices Fire Inspections want to meet or exceed. However, the standards are not part of Fire Inspections' mandate.

Going forward, Fire Inspections should further prioritize high-risk inspections based on defined criteria such as occupancy classification and NFPA Standards. As required by NFPA Standard 1300, CFD conducts a Community Risk Assessment to evaluate fire risk in Calgary and guide risk reduction activities. This process assigns a risk rating to each structure based upon the consequence and probability of an incident. This assessment may represent an additional useful data point to consider when prioritizing within an occupancy class.

Fire Inspections is responsible for inspection obligations under the QMP, which includes attending occupancy inspections upon request. There is a potential opportunity to redeploy additional resources to the RBI Program given less resources are expected to be required to support occupancy inspections due to 2020 changes in procedures with Calgary Building Services.

Based on prioritization and available resources, Fire Inspections should determine the expected level of coverage for the next phase of the program. The level of coverage could be incorporated into SMART (Specific, Measurable, Attainable, Relevant and Timebound) objectives to allow Fire Inspections to measure the success of the next phase. Fire Inspections should collect information on the number of hours to complete an RBI to support the determination of the level of coverage that can be achieved based on available resources and timebound objectives.

Additional Considerations

SCO indicated current prioritization of RBI within a given occupancy classification (e.g. high-rise residential) is based upon their personal judgement. This may include knowledge from their time as a front-line firefighter, information received from CFD crews regarding buildings with a high number of incidents and occupancy levels. In the interim, there is value in ensuring individual SCO prioritization aligns with the objectives of the next phase of the program.

Recommendation 2

The Fire Marshal set objectives for the interim phase of the RBI Program (expected to be 2020 and 2021) that cover:

1. The number of properties to be inspected within each occupancy classification within each calendar year; and
2. Expected coverage of high-risk properties to be achieved.

In setting these objectives consider hours of effort required to complete inspections, available resources and risk prioritization including appropriate results of the Community Risk Assessment.

Management Response

Agreed.

Action Plan	Responsibility
<p>The Fire Marshal will establish goals and objectives for the Risk-Based Inspection pilot program based upon the SMART model in order to better assess the long-term sustainability of the model. The performance measures will include but not limited to</p> <ol style="list-style-type: none"> 1. The number of properties to be inspected within the High classification according to the risk matrix within each calendar year. 2. Expected coverage of high-risk properties to be achieved. 	<p><u>Lead</u>: Fire Marshal</p> <p><u>Support</u>: Manager, Strategic Services</p> <p><u>Commitment Date</u>: September 30, 2020</p>

Recommendation 3

The Fire Marshal implement a process to collect information on hours of effort required to complete an RBI to inform objective setting both for the interim RBI approach and future Dynamic Model.

Management Response

Agreed.

Action Plan	Responsibility
<p>The Fire Marshal will implement a tracking system to identify the approximate expected timeframe required to complete the various types of inspection services offered. Due to the intricacies related to building, occupancy, and specific inspection type; this will only be an estimated timeframe and cannot be used as an absolute measure. These expectations will be used in future goal and objective setting initiatives.</p>	<p><u>Lead</u>: Fire Marshal</p> <p><u>Support</u>: Fire Inspections Coordinators</p> <p><u>Commitment Date</u>: July 30, 2020</p>

4.3 Dynamic Model Development - Model Risk

Fire Inspections has initiated a project to create a Dynamic Model that will be used to identify and prioritize RBI. Implementing a Dynamic Model introduces model risk, which is the potential for adverse consequences from decisions based on incorrect or misused model

outputs and reports. Fire Inspections should build in controls to address model risk as part of the initial phase of the project. Building in controls at this early project phase will be a more cost-effective approach.

Consistent with dynamic models, used in cities such as Atlanta and Pittsburgh, the Dynamic Model is expected to use algorithms and a number of data sources on an ongoing basis to identify high-risk properties for potential inspection. This increased complexity results in model risk, which can originate from:

- Inappropriate, improper or unintended usage;
- Flawed assumptions; and
- Inaccurate, inappropriate or incomplete data.

Model risk should be managed throughout each stage of the model's life cycle. These stages are:

1. Model development and implementation - This step involves the design and creation of the model. Risks at this stage include the model design not aligning with its intended use, the developed model not functioning as designed, relevant parties not understanding the model and loss of knowledge as personnel change over time.
2. Ongoing monitoring – This stage addresses the risk that the model is no longer fit for purpose. This could be due to outdated assumptions or data quality issues.
3. Modifications – This stage involves both significant modifications and routine maintenance. CFD should monitor changes to ensure the model continues to function as intended to mitigate the risk that properties are not identified appropriately.

To determine appropriate controls to manage model risk, we reviewed supervisory guidance from the financial services industry and material related to the implementation of the Atlanta and Pittsburgh models mentioned previously. We only selected controls that are proportionate for Fire Inspections to apply.

Recommendation 4

The Manager, Strategic Services, integrate the following controls within the scope of the Dynamic Model project to address model risk at each stage of the model's life:

Model Development and Implementation

- Document statement of purpose to ensure the model is aligned with its intended use.
- Document evidence in support of all model choices including theoretical construction, key assumptions, data and specific mathematical calculations.
- Test to determine if the model is performing as intended, which includes checking the model's accuracy, assessing limitations, testing behaviour over a range of input values, and documenting test plans and results.
- Assign model ownership responsibility to an individual within Fire Inspections, who will be responsible for approving the implementation and subsequent modifications.

Ongoing Monitoring

- Periodically verify data inputs to ensure they remain accurate, complete and consistent with model purpose.

- Implement a process for SCO and other front-line personnel to be able to effectively challenge the results of the model when model results do not align with their experience.
- Annually verify to ensure that the model performs as expected. This could include:
 - Outcome analysis - mapping the model to actual outcomes. For example, the model used in Atlanta correctly predicted fires 71% of the time.
 - Benchmarking the model to alternative models.

Modifications

- Implement change control processes to ensure that the model can only be altered by approved parties. All changes should be logged and approved by the model owner.
- Test the model based on the significance of the change.

Management Response

Agreed.

Action Plan	Responsibility
Strategic Services will develop, implement, monitor and modify the dynamic risk model. The implementation requires the hiring of a limited term subject matter expert and the model is anticipated in late 2021. Recommendation above to be included in the model design for change management and data verification.	<u>Lead:</u> Manager, Strategic Services <u>Support:</u> Deputy Chief, Risk Management <u>Commitment Date:</u> December 31, 2021

4.4 Communication of Model Risk Exposure

The Dynamic Model will be used to identify and prioritize RBI. Fire Inspections will establish a cut-off score, based upon resources, below which properties would not be included in the future RBI Program. As this score would be in the context of the Dynamic Model, Fire Inspections senior management not closely involved in the program may not be aware of the risk exposure related to properties not included in the planned RBI Program. Fire Inspections should develop reporting to communicate fire safety risk addressed through RBI and unmitigated risk exposure to assist in strategic planning and decision making.

As noted in observation 4.3, Fire Inspections is moving to a dynamic RBI approach that will use a variety of data sources and algorithms to score properties to determine inspection priorities. A cut-off score will need to be established to determine the properties that can be inspected based on available resources. Reporting that explains the impact of this cut-off score should be developed to ensure Fire Inspections senior management is aware of the implications to fire safety risk.

Recommendation 5

The Manager Strategic Services include, within the scope of the Dynamic Model project, reporting to Fire Inspections senior management to communicate the level of fire safety risk addressed through the planned RBI Program and unmitigated risk exposure.

Management Response

Agreed.

Action Plan	Responsibility
<p>Strategic Services will provide updates on the unmitigated risks across the City and by First Due Fire District. Implementation will coincide with recommendation 4.</p> <p>Project reporting and summary of identified risks compared to the change in risk over the standard timeframes to be reported annually as part of the annual program appraisals.</p>	<p><u>Lead</u>: Manager, Strategic Services</p> <p><u>Support</u>: Deputy Chief, Risk Management</p> <p><u>Commitment Date</u>: December 31, 2021</p>

4.5 ArcGIS Layer Access Review

User access to the risk-based inspection layer within ArcGIS was not restricted to staff with a valid business need, and update access for SCO went beyond what was required for them to perform their inspection role. Restricting access helps prevent accidental changes, such as deletions, that could result in Fire Inspections not inspecting a high-risk property.

Fire Inspections created an initial list of risk-based properties based on occupancy classification, which was included in the ArcGIS risk-based inspection layer. SCO access the layer to assign RBI and update details when an inspection is complete.

We inspected a listing of 23 users that have access to the risk-based inspection layer. Management confirmed that five users no longer required the access that they were assigned based on current roles. SCO had the ability to delete and add structures (known as features in ArcGIS) from the layer. This access is beyond what is required for their role as they would be expected to update attributes associated with each structure based upon the results of the inspections but not change which structures are in the scope of the program.

Since SCO also update risk-based inspection information in FireHub, Fire Inspections may want to consider a similar access review process for the FireHub system.

Recommendation 6

The Fire Marshal ensure Fire Inspection Coordinators:

- Annually review user access to the ArcGIS risk-based inspection layer, including the type of access, to ensure access remains appropriate;
- Request removal of access that is no longer required; and

- Consider implementing a similar access review process for the FireHub system.

Management Response

Agreed.

Action Plan	Responsibility
<p>Fire Inspections have already removed the access for the five individuals identified above.</p> <p>Going forward the Fire Inspections Coordinators will conduct an annual audit of the users requiring and those having access to the ArcGIS risk-based inspection layer. They will work with GIS Analytics & Planning to review and amend access as appropriate.</p> <p>The Fire Inspections Coordinators will conduct a similar audit process for the FireHub system specific to the Properties module.</p>	<p><u>Lead</u>: Fire Marshal</p> <p><u>Support</u>: Fire Inspection Coordinators, Leader, GIS Analytics & Planning, FireHub MSA</p> <p><u>Commitment Date</u>: December 31, 2020</p>

Recommendation 7

The Fire Marshal ensure Fire Inspection coordinators work with the GIS Analyst to change edit access for SCO from "add, update and delete features" to "update attributes only".

Management Response

Agreed.

Action Plan	Responsibility
<p>Leader, GIS Analytics & Planning and the Fire Marshal will ensure that access changes are completed to amend Safety Codes Officer access in the ArcGIS system to "Update attributes only".</p>	<p><u>Lead</u>: Fire Marshal</p> <p><u>Support</u>: Leader, GIS Analytics & Planning, Fire Inspection Coordinators</p> <p><u>Commitment Date</u>: April 30, 2020</p>



Calgary

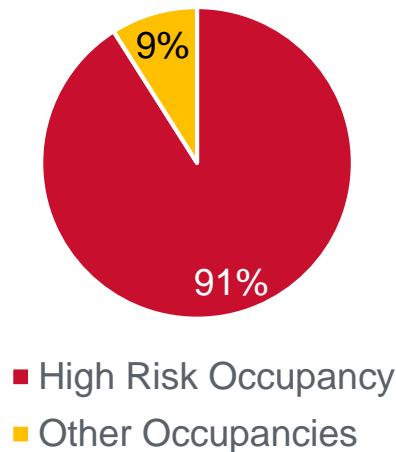
City Auditor's Office

ISC: Unrestricted
AC2020-0621 ATT2

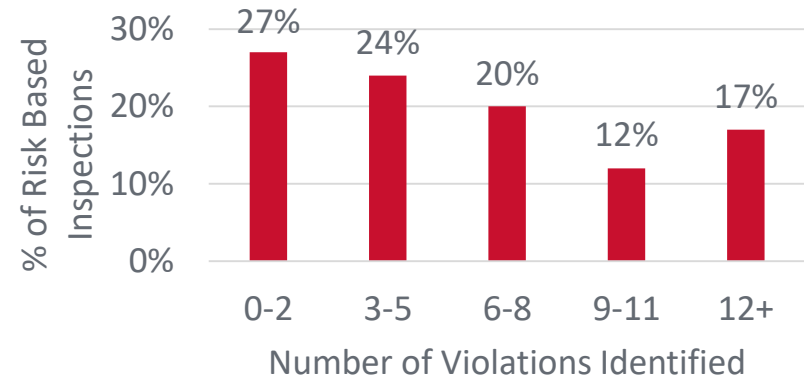
Calgary Fire - Inspections Audit

Risk-based Inspections (RBI) - 2019 Contribution to Public Safety

1. RBI targeted high risk occupancies:



2. 73% of properties had more than three violations at first inspection:



3. Top five violations:

- Fire alarm (73%)
- Sprinkler system (68%)
- Fire safety plans (56%)
- Generator (50%)
- Fire doors (33%)



Calgary

City Auditor's Office

Calgary Fire - Inspections Audit

Why we did this

- Assess the effectiveness of the RBI program
- Includes current occupancy based pilot and future state dynamic model

What we concluded

- RBI pilot is a positive step
- Greater focus needed to improve RBI coverage and risk prioritization
- Regulatory risks need to be assessed and communicated

Why it matters

- Improves the RBI program and future dynamic model
- Supports Fire Inspections mandate of preventing fires and saving lives

City Auditor's Office 2nd Quarter 2020 Report

EXECUTIVE SUMMARY

This report presents a summary of the activity of the City Auditor's Office during the period April 1, 2020 to June 30, 2020.

CITY AUDITOR'S RECOMMENDATIONS:

That with respect to the Report AC2020-0824, 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 2nd Quarter report is divided into four sections:

- Summary of performance measures and budget spend during the past quarter;
- Topical briefing on the Whistle-blower Program;
- 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 2nd Quarter 2020, the City Auditor's Office:

- Finalized one audit, initiated two audits, completed the planning stage on two audits, and completed the fieldwork on two audits.
- Reviewed 12 recommendations and closed five, four of which were implemented as originally planned. Seven recommendations required additional time and are in-progress.
- City Auditor's Office services continue to be delivered via remote working. Minor adjustments to the 2020 Audit Plan occurred during Q2 either due to specific audit test requirements, front line service resource limitations, or to address increasing risk concerns.
- Provided advisory support to the Infrastructure Calgary Steering Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

City Auditor's Office 2nd Quarter 2020 Report

Stakeholder Engagement, Research and Communication

N/A

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

1. City Auditor's Office 2nd Quarter 2020 Report



Calgary

City Auditor's Office

2nd Quarter 2020 Report April 1, 2020 – June 30, 2020

July 23, 2020

**Katharine Palmer
City Auditor**

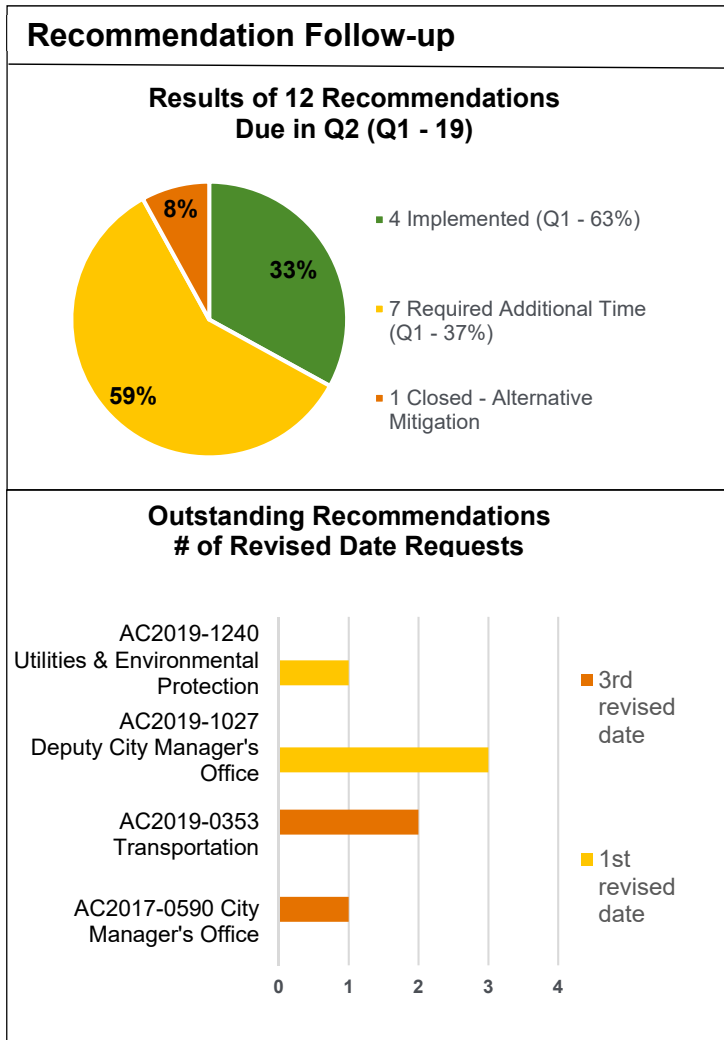
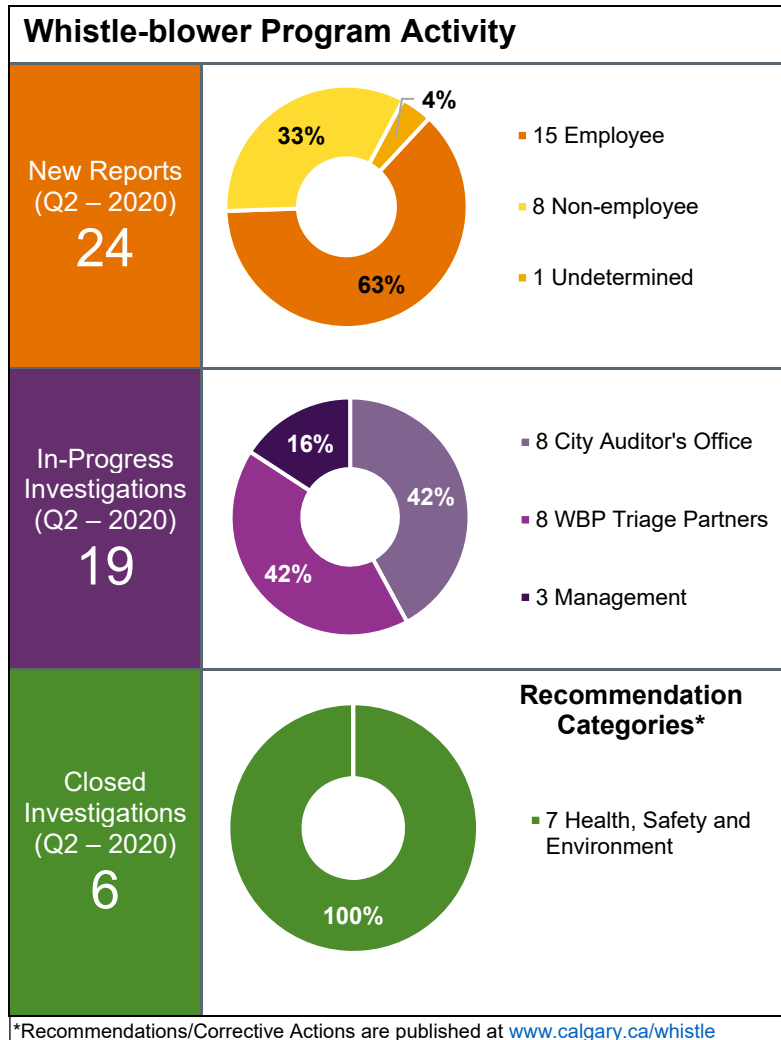
This page intentionally blank

1. Status Update

Key Performance Indicators				
Measure Area	Performance Indicator	Target	Q1 2020	Q2 2020
Efficiency	On Track to Annual Plan	Q1-26% Q2-59%	26%	46%
Effectiveness	Timely Implementation of Audit Rec.	65%	60%	29%
Quality	Client Satisfaction	85%	100%	N/A*
Staff	Training Plan Achieved	90%	75%	73%

*No survey responses received in this quarter.

Budget (\$'000's)				
Category	2020 Annual Budget	Q2 Cumulative Budget	Actual to Date	Variance
Salary	2,764	1,353	1,194	(159)
Tools & Technology	130	89	116	27
Training	56	28	13	(15)
Professional Memberships	18	9	7	(2)
Contracted Services	4	4	0	(4)
Employee Recognition	3	2	0	(2)
Office Operating Costs	49	32	28	(4)
Total	3,024	1,517	1,358	(159)

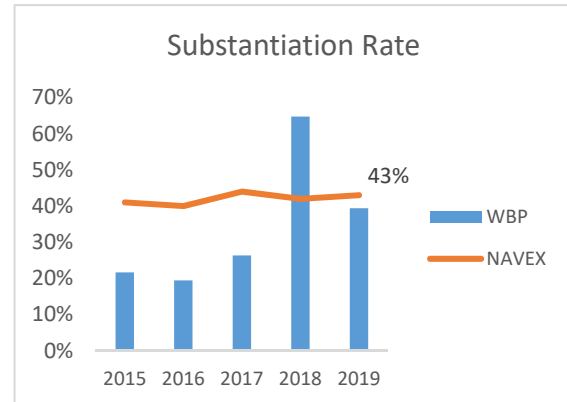


*Recommendations/Corrective Actions are published at www.calgary.ca/whistle

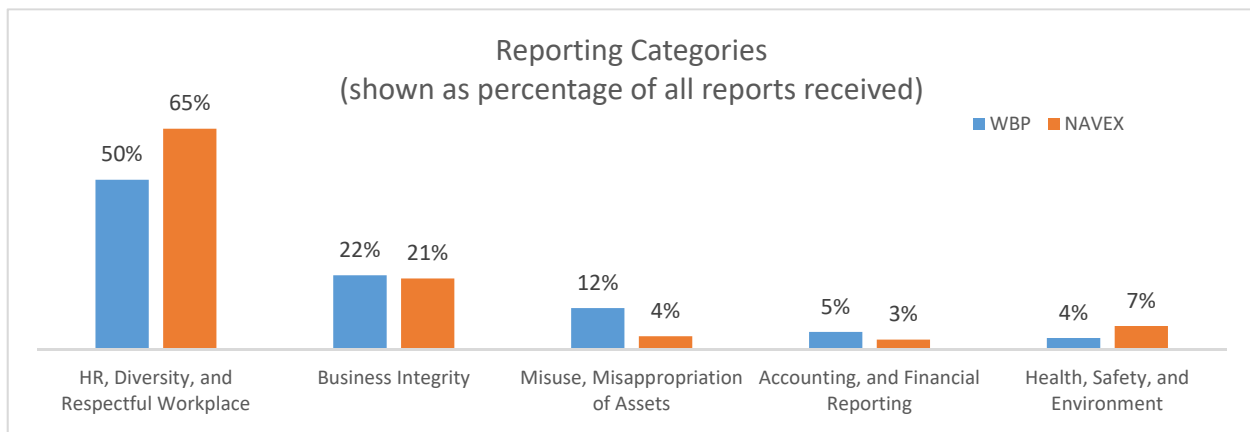
2. Initiative Briefing:

Whistle-blower Program (WBP) data is regularly analyzed and compared annually to external hotline data compiled by NAVEX Global¹ to better gauge the program's performance, effectiveness, and value, and to identify areas for improvement.

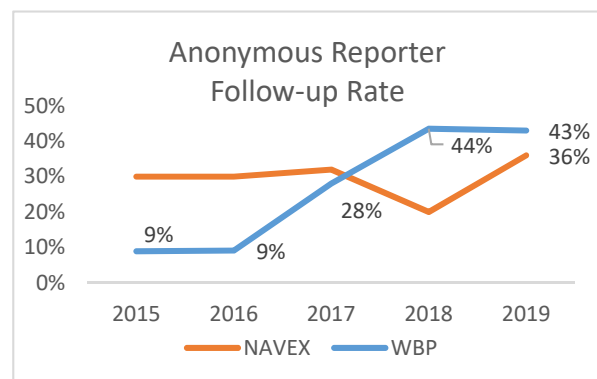
Substantiation rate remains high - In 2019, the WBP substantiated at least one allegation in 39% of all investigations concluded, above the 5-year WBP average (34%) and slightly below the NAVEX average for 2020 (43%). A high substantiation rate reflects a positive combination of awareness of City policies, timely reporting of concerns, and effective investigation practices.



Concerns align with other organizations - The categorization of allegations received can provide insight and potential 'hot spots' revealed are shared with Administration. In 2019, the nature and frequency of reports submitted to the WBP remained consistent with prior years as well as with concerns raised within other organizations.



Anonymous reporters are engaged - Facilitating a reporting process supporting anonymity and encouraging individuals to remain involved is essential to supporting the investigation process. Seventy-three percent of reports received in 2019 were from anonymous sources, 43% of whom remained engaged through the investigation process and followed up on the status of their report, or responded to requests by investigators for additional information, surpassing the NAVEX average (36%).



Utilization and operational data suggests that the WBP is operating in general alignment with hotlines from other organizations.

¹ The NAVEX Global 2020 Risk & Compliance Hotline Benchmark Report comprises data from over 1.4 million individual reports disclosed by 3,255 organizations with more than 10 reports, representing over 50 million employees globally.

2020 Audit Plan – Status as at June 30, 2020

*Indicates adjustment to Plan during Q2

2020 Audit Plan				
#	Title	Description	Report Target	Status
2019 Carry Forward				
1	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	Q1, 2020	Complete Reported 2/13/2020
2	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	Q1, 2020	Complete Reported 3/12/2020
3	Corporate Issue Management Program	An operational audit on the maturity of The City's Corporate Issue Management Program. Citizen Priority – A Well-Run City	Q1, 2020	Complete Reported 3/12/2020
4	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	Q2, 2020	Reporting
5	Roads – Pothole Remediation	An operational audit of the efficiency and effectiveness of pothole remediation. Citizen Priority – A City that Moves	Q2, 2020	Completed Reported 6/11/2020
2020 Audit Plan				
1	Opportunity Calgary Investment Fund	An operational audit of Opportunity Calgary Investment Fund's grant administration. Citizen Priority – A Prosperous City	Q2, 2020	Reporting

2020 Audit Plan				
#	Title	Description	Report Target	Status
2	Green Line Project Governance Follow-up	A follow-up audit to review action plans implemented in response to the 2019 Green Line – Governance Audit (AC2019-0353) Citizen Priority – A City that Moves	Deferred	Will be considered for inclusion in the 2021 Audit Plan
3	Assessment Complaints	An operational audit of the processes utilized by The City to efficiently prepare for, and improvement incorporated in response to, the assessment complaints process. Citizen Priority – A Prosperous City	Q3	Reporting
4	IT SCADA System Security	An IT security audit of the complex supervisory control and data acquisition (SCADA) systems that support critical City infrastructure. Citizen Priority – A Well-Run City	Deferred*	Fieldwork on hold until Q1 2020*
5	Integrated Risk Management	A follow-up audit on Integrated Risk Management (AC2014-0295). Citizen Priority – A Well-Run City	Moved from Q4 2020 to Q1 2021*	Planning
6	Safety Management	An operational audit of the effectiveness of the Environmental & Safety Management Business Unit's monitoring and mitigation of safety incidents. Citizen Priority – A Well-Run City	Deferred*	Will be considered for inclusion in the 2021 Audit Plan*

2020 Audit Plan				
#	Title	Description	Report Target	Status
7	311 Response	A City-wide operational audit of the service area responses to citizen concerns received through 311. Citizen Priority – A Well-Run City	Q1 2021	Planning
8	Councillor Expenses	An audit of Councillor expenses at the request of Council in response to Notice of Motion C2020-0263. Citizen Priority – A Well-Run City	Q3	Reporting
9	Cyber Security Incident Response Follow-up Audit	A follow-up audit to review action plans implemented in response to the Cyber Security Incident Response Audit (AC2018-0410). Citizen Priority – A Well-Run City	Q1 2021*	Addition to Plan: To Initiate in Q3*

Q2 2020 Recommendation Follow-up– In-Progress Action Plans

Q2 2020 ACTION PLANS REQUIRING ADDITIONAL TIME TO IMPLEMENT			
Report # & Title	# of Revisions	New Revised Date	Recommendation
AC2017-0590- IT Follow-up	3	December 31, 2021	#3d)- The Chief Security Officer to, as a result of the Threat Risk Assessment, implement a central repository with a list of applications containing confidential and highly restricted data.
AC2019-0353- Green Line Governance	3	December 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	3	December 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.
AC2019-1027 Supply Management Warehouse and Inventory Control	1	June 30, 2020	#1b)- Manager, Warehouse and Inventory, to work with IT to investigate and resolve the operation of the FSCM embedded approval process to ensure that write-offs greater than tolerance levels are validated and approved by an authorized employee who did not complete the inventory count.
AC2019-1027 Supply Management Warehouse and Inventory Control	1	June 30, 2020	#2- Manager, Warehouse and Inventory, to redesign the inventory count process by incorporating blind inventory counts to support the early identification of inventory record discrepancies.
AC2019-1027 Supply Management Warehouse and Inventory Control	1	June 30, 2020	#3- Manager, Warehouse and Inventory, to develop a process to monitor and verify that inventory counts for type A inventory items are completed within the required cycle count intervals.
AC2019-1240- Waste and Recycling- Blue Cart Contamination Prevention	1	December 31, 2020	#1- The Manager of Infrastructure and Program Management: i. Using a risk-based approach, determine the appropriate target levels for overall blue cart contamination and HHW contamination and establish associated SMART goals and metrics. As part of this process consider if residual contamination is an appropriate measure. ii. Establish and implement the target mix of contamination prevention activities to achieve SMART goals, considering the results of the Customer Service Project and Cart Spot Check Program. iii. Implement a process to evaluate and report on progress towards SMART goals on a defined frequency. The process must include Director level reporting on HHW contamination, both on a periodic basis and when levels exceed predefined thresholds that indicate an elevated safety risk.

City Auditor's Office Bylaw

EXECUTIVE SUMMARY

The City Auditor's Office Bylaw 30M2004 (AC2020-0825 Attachment 1) requires updating to reflect changes identified by the Bylaw Review Working Group of Audit Committee, and to continue to conform to standards set by the Institute of Internal Auditors. Specific changes are notated in AC2020-0825 Attachment 3.

CITY AUDITOR'S RECOMMENDATIONS:

That Audit Committee recommends:

1. That Attachment 4, the Proposed Text for a bylaw to amend Bylaw 30M2004, the City Auditor Bylaw, be approved; and
2. That Council give three readings to the proposed Bylaw.

PREVIOUS COUNCIL DIRECTION / POLICY

Council approved Bylaw 30M2004 (Bylaw to establish the position of City Auditor) and AC2004-09 Attachment 2 (City Auditor Model) on May 17, 2004. Council approved Bylaw 48M2012 (Bylaw to continue the Audit Committee) on May 5, 2012. Council approved the City Auditor's Office Charter (AC2013-0830 Attachment 2, replacing the City Auditor Model AC2004-09 Attachment 2) and amended City Auditor Bylaw 30M2004 on January 13, 2014. Council approved the City Auditor's Office Charter (AC2020-0825 Attachment 2), replacing the previous City Auditor's Office Charter (AC2013-0830 Attachment 2) and amended City Auditor Bylaw 30M2004 (AC2020-0825 Attachment 1) on April 25, 2016.

BACKGROUND

The City Auditor's Office provides independent and objective audit, advisory and investigative services for the City of Calgary. Bylaw 30M2004 establishes the position of the City Auditor and states that the City Auditor is responsible for assisting Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement of value for money in City operations. It is also recognized, through the proposed amendments the responsibility of the City Auditor to provide independent and objective assurance, advisory, and investigative services to add value to The City of Calgary and enhance public trust. The Bylaw 30M2004 with the new Schedule A as proposed collectively forms the terms of reference governing the City Auditor.

The City Auditor's Office follows the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing (IIA Standards). IIA Standard 1000 (Purpose, Authority and Responsibility) states that "The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval." To align with this standard, the City Auditor reviews the City Auditor Bylaw and corresponding documents, as applicable, on a triennial basis, or more frequently as needed. The last review occurred in 2016.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2019, members of Audit Committee supported a comprehensive review of both the Audit Committee Bylaw 48M2012, and the City Auditor Bylaw 30M2004 as part of the approved Audit Committee 2019 Work Plan.

City Auditor's Office Bylaw

In 2019 November, Audit Committee formed a Bylaw Working Group consisting of the following membership:

- Councillor E. Woolley
- Councillor J. Farkas
- Citizen Member L. Caltagirone
- City Auditor, Katharine Palmer
- City Legal Representative, Shawn Swinn
- Audit Committee Executive Assistant, Corrie Smillie

The Bylaw Working Group evaluated both bylaws considering strategic goals provided by the Strategic Working Group. The Strategic Working Group was established in early 2020 to undertake a review of strategic matters on behalf of the Audit Committee and consisted of the following Audit Committee members:

- Councillors E. Woolley
- Councillor G. Carra
- Citizen Member L. Caltagirone
- Citizen Member M. Dalton
- Citizen Member M. Lambert

Amendments proposed in the City Auditor Bylaw (Attachment 3) reflect the collective agreement of the Bylaw Working Group and support alignment to:

- IIA Standards;
- Audit Committee Bylaw 48M2012 as amended;
- Recommendations from the Audit Committee Strategic and Bylaw working groups; and
- Current practices of the City Auditor's Office.

The amendments include the addition of a Schedule A which reflects the City Auditor's Office structures and internal policies as established to support assurance, advisory and investigation services. The inclusion of Schedule A supports the removal of the previous City Auditor's Office Charter due to redundancy. Attachment 4 summarizes the key changes proposed.

Stakeholder Engagement, Research and Communication

The City Auditor's Office consulted with members of Audit Committee, members of Audit Committee strategic working group, the City's Chief Financial Officer, the City Manager, and The City's Law Department regarding the proposed amendments to the City Auditor Bylaw.

Strategic Alignment

The City Auditor's Office assists Council in its oversight of the City Manager's administration and accountability for stewardship over public funds.

Social, Environmental, Economic (External)

Not applicable.

City Auditor's Office Bylaw

Financial Capacity

Current and Future Operating Budget:

Not applicable.

Current and Future Capital Budget:

Not applicable.

Risk Assessment

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

REASON FOR RECOMMENDATIONS:

Council approval is required to amend a previously approved Bylaw or report. The City Auditor Bylaw 30M2004 requires amendment to conform to Institute of Internal Auditor Standards, recent revisions to the Audit Committee Bylaw 48M2012 and current practices of the City Auditor's Office.

ATTACHMENTS

1. Bylaw 30M2004, as approved 2016 April 25
2. City Auditor Charter, referenced in AC2016-0247, and approved 2016 April 25
3. Proposed updated Bylaw 30M2004, with changes notated
4. Proposed Text for a bylaw to amend Bylaw 30M2004, the City Auditor Bylaw

OFFICE CONSOLIDATION

BYLAW NUMBER 30M2004

**BEING A BYLAW OF THE CITY OF CALGARY
TO ESTABLISH
THE POSITION OF CITY AUDITOR

(Amended by 42M2004, 4M2014, 26M2016)

WHEREAS S. 210 of the Municipal Government Act ("the Act") allows Council to pass a bylaw establishing a designated officer position to carry out specified powers, duties and functions;

WHEREAS Council has considered AC2016-0247 and has approved the City Auditor's Office Charter;

(26M2016, 2016 April 25)

AND WHEREAS Council wishes to establish a position of City Auditor;

(4M2014, 2014 January 27)

**NOW, THEREFORE, THE COUNCIL OF THE CITY OF CALGARY ENACTS AS
FOLLOWS:**

1. The designated officer position of City Auditor is hereby created, with the powers, duties and functions as specified in this Bylaw or any other bylaw making reference to the City Auditor.
2. Council may, by resolution, appoint a person for a term not exceeding five (5) years, to hold the position of City Auditor and specify the terms and conditions of such appointment.
3. The person appointed to the position of City Auditor is eligible for reappointment.
4. The appointment of a person to the position of City Auditor may be made, suspended or revoked only if the majority of the whole Council vote to do so.
5. The City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee.
6. DELETED BY 4M2014, 2014 JANUARY 27.
(42M2004, 2004 June 21)
7. The City Auditor shall be provided with unrestricted access to all municipal personnel, records, property, policies, procedures, processes and systems necessary to conduct audits.
8. DELETED BY 4M2014, 2014 JANUARY 27.
9. The City Auditor shall have sole administrative authority and control over staff reporting to that position, including the establishment of management structures and

administrative policies. The hiring, evaluation, discipline and dismissal of staff is subject to any existing legislation, contracts or corporate employment guidelines.

10. The City Auditor may retain consultants and make other expenditures as authorized by the budget approved by Council.
11. The City Auditor may further delegate powers, duties and functions to any person reporting directly or indirectly, to the City Auditor.
12. This Bylaw comes into force on the day it is passed.

READ A FIRST TIME THIS 17th DAY OF MAY, 2004.

READ A SECOND TIME THIS 17th DAY OF MAY, 2004.

READ A THIRD TIME THIS 17th DAY OF MAY, 2004.

(Sgd.) D. Bronconnier
MAYOR

(Sgd.) D. Garner
CITY CLERK



City Auditor's Office

CITY AUDITOR'S OFFICE CHARTER

MISSION:

Internal Auditing is an independent and objective assurance and advisory activity that is guided by a philosophy of adding value to improve the operations of The City of Calgary. It assists The City in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and internal control. The mission of the City Auditor's Office is to "Provide independent and objective assurance, advisory and investigative services to add value to The City of Calgary and enhance public trust." This aligns to the Institute of Internal Auditors' stated mission to "Enhance and protect organizational value by providing risk-based and objective assurance, advice and insight."

ROLE:

The designated officer position of the City Auditor is established by Bylaw 30M2004 (as amended).

PROFESSIONALISM:

The City Auditor will govern the City Auditor's Office by adherence to The Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance. The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations.

AUTHORITY:

The City Auditor's Office shall be provided with unrestricted access to all municipal personnel, records, property, policies, procedures, processes and systems necessary to conduct audits. All employees are requested to assist the City Auditor's Office in fulfilling its roles and responsibilities. The City Auditor's Office will also have free and unrestricted access to Audit Committee through in camera sessions scheduled as part of each Audit Committee meeting and as requested/required.

The City Auditor has sole administrative authority and control over staff reporting to that position.

The City Manager will provide administrative support as required to the City Auditor including:

- a. legal services,
- b. human resources and payroll,
- c. corporate communications,
- d. information technology, and
- e. materials management, budget and accounting.

ORGANIZATION:

The City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee. Audit Committee's role with regard to the City Auditor's Office is set out in Bylaw 48M2012.

INDEPENDENCE AND OBJECTIVITY:

The City Auditor's Office will remain free from interference by any element in the organization in the conduct of individual audits (including matters of audit selection, scope, procedures, frequency, timing, or report content) to permit maintenance of a necessary independent and objective mental attitude.

The City Auditor's Office will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair an internal auditor's judgement.

The City Auditor's Office will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

The City Auditor will confirm to Audit Committee annually the independence of the City Auditor's Office.

RESPONSIBILITY:

The City Auditor's Office is responsible for assisting Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement of value for money in City operations, which, without limiting the scope of the foregoing, includes:

- a) Performance audits: independent objective review and evaluation of City operations, programs, processes and systems, further categorized as:

Compliance Audits

Review the systems established to ensure compliance with policies, plans, procedures, ethical and business norms, as well as laws, regulations, and contracts which can have a significant impact on operations and reports and determining whether the organization is in compliance.

Follow-up Audits

Review the effectiveness of the corrective action implemented in response to previous audit recommendations to ensure the underlying risk was mitigated as intended to support achievement of the objective. This type of audit is generally limited in scope, however, may identify efficiency opportunities resulting from operational changes and/or redundant control structures.

IT Audits

Review and evaluation of automated information processing systems, related non-automated processes and the interfaces among them to ensure business risks are minimized appropriately.

Operational Audits

Utilizing a risk-based approach, review operations, services, processes and/or systems to determine whether they are effective and implemented as planned to achieve their objectives. This type of audit may include assessing the efficiency with which resources are utilized.

- b) Financial audits, excluding those performed by the external auditor appointed under s. 280 of the Municipal Government Act ("the Act"); and
- c) Consulting services, including financial advisory, risk management, information technology systems security and control, and general management advisory services.

The City Auditor will determine the appropriate methodologies, project scope and service delivery options necessary to discharge the above responsibilities. The City Auditor's Office has the authority to audit any area of City operations reporting to the City Manager, as well as consolidated entities, or civic entities who receive any type of benefit from The City of Calgary (financial, assets, or in-kind). The City Auditor's Office takes a risk-based approach to developing the annual audit plan, and may include audits of civic entities taking into account relevant risks, as well as considering the involvement of other assurance groups.

INTERNAL AUDIT PLAN:

The City Auditor will present an annual risk-based audit plan to Audit Committee for approval and to Council for information. The City Auditor will present a corresponding budget to Audit Committee for their review and recommendation to Council for approval. The Audit Committee or Council may not remove items from the City Auditor's annual audit plan but may direct items be added to the plan at the time of presentation. The City Auditor may request additional resources where items are added to the plan.

If the City's risk profile, on which the annual audit plan is based, significantly changes during any given year, the City Auditor will amend the annual audit plan as needed by presenting proposed changes to Audit Committee for approval.

The City Auditor will coordinate related activities with the City's appointed External Auditor to minimize duplication of efforts. The City Auditor will consider work done by other internal City assurance groups to avoid duplication of efforts.

REPORTING AND MONITORING:

The City Auditor will present audit reports (including Administration's response and corrective actions to be taken in regard to specific observations) to Audit Committee upon completion. Reports are shared with members of Audit Committee and enter the public domain through the Audit Committee agenda. The City Auditor may share finalized audit reports with the Chair of Audit Committee in advance of publication of the Audit Committee agenda.

The City Auditor submits a quarterly report to Audit Committee that summarizes the status of deliverables against the annual audit plan. In addition to quarterly reports, the City Auditor presents to Audit Committee and to Council an Annual Report summarizing activities undertaken by the City Auditor's Office in the past year.

The City Auditor will include in quarterly reporting to Audit Committee, the status of Administration action on the recommendations contained in previous audit reports. All significant audit recommendations will be followed up by the City Auditor's Office until cleared/closed.

QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:

The City Auditor's Office will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether the City Auditor's Office applies the Code of Ethics. The program also assesses the efficiency and effectiveness of the City Auditor's Office and identifies opportunities for improvement. The City Auditor will report annually to Audit Committee on the City Auditor's Office quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

REVIEW:

The City Auditor will review this Charter and Bylaw 30M2004 every three years (or more frequently if required), in conjunction with Audit Committee's review of Bylaw 48M2012, and present any proposed changes to Audit Committee and Council for approval.

OFFICE CONSOLIDATION

BYLAW NUMBER 30M2004

**BEING A BYLAW OF THE CITY OF CALGARY
TO ESTABLISH
THE POSITION OF CITY AUDITOR

(Amended by 42M2004, 4M2014, 26M2016)

WHEREAS S. 210 of the *Municipal Government Act* ("the Act") allows Council to pass a bylaw establishing a designated officer position to carry out specified powers, duties and functions;

~~**WHEREAS** Council has considered AC2016-0247 and has approved the City Auditor's Office Charter;~~

(26M2016, 2016 April 25)

AND WHEREAS Council wishes to establish a position of City Auditor;

(4M2014, 2014 January 27)

**NOW, THEREFORE, THE COUNCIL OF THE CITY OF CALGARY ENACTS AS
FOLLOWS:**

1. The designated officer position of City Auditor is hereby created, with the powers, duties and functions as specified in this Bylaw or any other bylaw making reference to the City Auditor.
2. Council may, by resolution, appoint a person for a term not exceeding five (5) years, to hold the position of City Auditor and specify the terms and conditions of such appointment.
3. The person appointed to the position of City Auditor is eligible for reappointment. ~~The total term of the appointment must not exceed ten (10) years.~~
4. The appointment of a person to the position of City Auditor may be made, suspended or revoked only if the majority of the whole Council vote to do so.
5. The City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee.
6. DELETED BY 4M2014, 2014 JANUARY 27.

(42M2004, 2004 June 21)

~~7. The City Auditor shall be provided with unrestricted access to all municipal personnel, records, property, policies, procedures, processes and systems necessary to conduct audits.~~

7. The City Auditor's mandate is to audit:

- (a) any area of City operations reporting to the City Manager;
 - (b) any entity that receives any type of benefit from The City, whether financial, assets or in-kind, where The City has the legal authority to conduct an audit.
- 7.1 The City Auditor shall be provided with unrestricted access to all municipal personnel, records, property, policies, procedures, processes, systems and data necessary to support the work conducted by the City Auditor in delivery of assurance, advisory and investigative services.
- 7.2 The City Auditor shall report the outcome of all audits to the Audit Committee (including Administration's response and corrective actions to be taken in regard to specific recommendations).
- 7.3 The responsibilities of the City Auditor are more fully set out in Schedule A.
8. DELETED BY 4M2014, 2014 JANUARY 27.
9. The City Auditor shall have sole administrative authority and control over staff reporting to that position, including the establishment of management **and salary** structures and administrative policies. The hiring, evaluation, discipline and dismissal of staff is subject to any existing legislation, contracts or corporate employment guidelines.
- 9.1 The City Auditor, through the City Manager, shall be provided enabling support services as required including:
- (a) corporate security;
 - (b) facility management;
 - (c) financial support;
 - (d) human resource support;
 - (e) IT solutions and support;
 - (f) legal counsel and advisory;
 - (g) organizational health, safety and wellness;
 - (h) procurement and warehousing; and
 - (i) strategic marketing and communications.

10. The City Auditor may retain consultants, and make other expenditures as ~~authorized~~ **supported** by the **City Auditor's** budget approved by Council.
11. The City Auditor may further delegate powers, duties and functions to any person reporting directly or indirectly, to the City Auditor.
12. This Bylaw comes into force on the day it is passed.

READ A FIRST TIME THIS 17th DAY OF MAY, 2004.

READ A SECOND TIME THIS 17th DAY OF MAY, 2004.

READ A THIRD TIME THIS 17th DAY OF MAY, 2004.

(Sgd.) D. Bronconnier
MAYOR

(Sgd.) D. Garner
CITY CLERK

SCHEDULE “A”

CITY AUDITOR’S OFFICE STRUCTURES AND POLICIES

The City Auditor will ensure management structures and administration policies are sufficient to support:

1. MANDATE

The City Auditor will:

- (a) assist Council, through the Audit Committee, in its oversight of the City Manager’s administration and accountability for stewardship over public funds and achievement of value for money in City operations; and
- (b) provide independent and objective assurance, advisory and investigative services to add value to The City of Calgary and enhance public trust.

2. PROFESSIONALISM AND INDEPENDENCE

The City Auditor and any staff reporting to the City Auditor will:

- (a) conduct all audit and advisory services through adherence to The Institute of Internal Auditors' mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards);
- (b) conduct all investigative services through adherence to Association of Certified Fraud Examiner’s Code of Professional Standards. These standards of professional conduct will be adhered to as they pertain to integrity and objectivity, professional compliance, due professional care, communication and confidentiality;
- (c) remain free from interference by any element in the organization in the conduct of assurance, advisory and investigative services to permit maintenance of a necessary independent and objective mental attitude;
- (d) have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement; and
- (e) exhibit the highest level of professional objectivity in gathering, evaluating, and communicating results. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

3. **ASSURANCE SERVICES**

The City Auditor will:

- (a) utilize a risk-based approach, and communicate audit assurance activities to Audit Committee for approval through the development of an annual audit plan, which, without limiting the scope of the foregoing, includes:
 - (i) Compliance Audits
Review the systems established to ensure compliance with policies, plans, procedures, ethical and business norms, as well as laws, regulations, and contracts which can have a significant impact on operations and reports and determining whether the organization is in compliance.
 - (ii) IT Audits
Review and evaluation of automated information processing systems, related non-automated processes and the interfaces among them to ensure business risks are minimized appropriately.
 - (iii) Operational Audits
Utilizing a risk-based approach, review operations, services, processes and/or systems to determine whether they are effective and implemented as planned to achieve their objectives. This type of audit may include assessing the efficiency with which resources are utilized.
 - (iv) Follow-up Audits
Review the effectiveness of the corrective action implemented in response to previous audit recommendations to ensure the underlying risk was mitigated as intended to support achievement of the objective. This type of audit is generally limited in scope, however, may identify efficiency opportunities resulting from operational changes and/or redundant control structures.
- (b) determine the appropriate methodologies, project scope, including utilization of data analytics to discharge the above, as well as considering the involvement and work performed by other assurance groups.

4. **ADVISORY SERVICES**

The City Auditor will:

- (a) provide advisory services on an issue or project specific basis as requested by Administration which may include financial advisory, risk management, information technology systems security and control, data analytics and general management advisory services;
- (b) ensure requests received from Administration will be resourced based on a risk assessment basis similar to the determination on audit assurance work;

- (c) provide an independent view and insight on current, new or emerging risks and opportunities facing The City based on knowledge of best practice on risks, controls and governance frameworks;
- (d) ensure advisory service work must not impede the ability to conduct objective audits at a future date;
- (e) determine whether capacity exists to complete advisory requests against the priorities set on the approved audit plan; and
- (f) determine the appropriate methodologies, project scope, including utilization of data analytics to discharge the above.

5. **INVESTIGATIVE SERVICES**

The City Auditor will:

- (a) ensure sufficient professional staffing and technology are employed to support the Whistle-blower Program including intake, assessment, investigation, reporting and corrective action recommendation processes;
- (b) ensure all activities of the Whistle-blower Program are confidential and shared only on a need-to-know basis or as necessary to conclude on the investigation and/or recommend corrective action; and
- (c) establish processes in compliance with Council Whistle-blower Policy CC026.

6. **ACTIVITY REPORTING**

The City Auditor will:

- (a) provide a quarterly report to Audit Committee that includes trending and achievement of City Auditor's Office performance measures as established to reflect effective delivery of the City Auditor's Office mandate, status of Administration action on the current recommended action plan commitments agreed upon in previous audit reports, and status of deliverables against the approved annual audit plan;
- (b) amend the annual audit plan as needed if the risk profile, on which the annual audit plan is based, significantly changes during any given year, by presenting proposed changes to Audit Committee for approval; and
- (c) provide an annual report to Audit Committee that provides a retrospective summary of highlights and achievements of the year, reflecting the assurance, advisory and investigation services provided.

Proposed Text for a bylaw to amend Bylaw 30M2004, the City Auditor Bylaw

1. Bylaw 30M2004, as amended, is hereby further amended.
2. In the preamble, the following is deleted:

"WHEREAS Council has considered AC2016-0247 and has approved the City Auditor's Office Charter;"
3. Section 3 is deleted and replaced with the following:

"3. The person appointed to the position of City Auditor is eligible for reappointment. The total term of the appointment must not exceed ten (10) years."
4. Section 7 is deleted and replaced with the following:

"7. The City Auditor's mandate is to audit:

 - (a) any area of City operations reporting to the City Manager;
 - (b) any entity that receives any type of benefit from The City, whether financial, assets or in-kind, where The City has the legal authority to conduct an audit.

7.1 The City Auditor shall be provided with unrestricted access to all municipal personnel, records, property, policies, procedures, processes, systems and data necessary to support the work conducted by the City Auditor in delivery of assurance, advisory and investigative services.

7.2 The City Auditor shall report the outcome of all audits to the Audit Committee (including Administration's response and corrective actions to be taken in regard to specific recommendations).

7.3 The responsibilities of the City Auditor are more fully set out in Schedule A."
5. In section 9, after the word "management", the words "and salary" are added.
6. After section 9, the following is added as section 9.1:

"9.1 The City Auditor, through the City Manager, shall be provided enabling support services as required including:

 - (a) corporate security;
 - (b) facility management;
 - (c) financial support;
 - (d) human resource support;

- (e) IT solutions and support;
 - (f) legal counsel and advisory;
 - (g) organizational health, safety and wellness;
 - (h) procurement and warehousing; and
 - (i) strategic marketing and communications.”.
7. Section 10 is deleted and replaced with the following:
- “10. The City Auditor may retain consultants, authorize contracts and make other expenditures as supported by the City Auditor’s budget approved by Council.”.
8. The following is added as “Schedule A”:

“SCHEDULE “A”

CITY AUDITOR’S OFFICE STRUCTURES AND POLICIES

The City Auditor will ensure management structures and administration policies are sufficient to support:

1. MANDATE

The City Auditor will:

- (a) assist Council, through the Audit Committee, in its oversight of the City Manager’s administration and accountability for stewardship over public funds and achievement of value for money in City operations; and
- (b) provide independent and objective assurance, advisory and investigative services to add value to The City of Calgary and enhance public trust.

2. PROFESSIONALISM AND INDEPENDENCE

The City Auditor and any staff reporting to the City Auditor will:

- (a) conduct all audit and advisory services through adherence to The Institute of Internal Auditors’ mandatory guidance including the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards);
- (b) conduct all investigative services through adherence to Association of Certified Fraud Examiner’s Code of Professional Standards. These standards of professional conduct will be adhered to as they pertain to integrity and objectivity,

professional compliance, due professional care, communication and confidentiality;

- (c) remain free from interference by any element in the organization in the conduct of assurance, advisory and investigative services to permit maintenance of a necessary independent and objective mental attitude;
- (d) have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgement; and
- (e) exhibit the highest level of professional objectivity in gathering, evaluating, and communicating results. They will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

3. **ASSURANCE SERVICES**

The City Auditor will:

- (a) utilize a risk-based approach, and communicate audit assurance activities to Audit Committee for approval through the development of an annual audit plan, which, without limiting the scope of the foregoing, includes:
 - (i) Compliance Audits
Review the systems established to ensure compliance with policies, plans, procedures, ethical and business norms, as well as laws, regulations, and contracts which can have a significant impact on operations and reports and determining whether the organization is in compliance.
 - (ii) IT Audits
Review and evaluation of automated information processing systems, related non-automated processes and the interfaces among them to ensure business risks are minimized appropriately.
 - (iii) Operational Audits
Utilizing a risk-based approach, review operations, services, processes and/or systems to determine whether they are effective and implemented as planned to achieve their objectives. This type of audit may include assessing the efficiency with which resources are utilized.
 - (iv) Follow-up Audits
Review the effectiveness of the corrective action implemented in response to previous audit recommendations to ensure the underlying risk was mitigated as intended to support achievement of the objective. This type of audit is generally limited in scope, however, may identify efficiency opportunities resulting from operational changes and/or redundant control structures.

- (b) determine the appropriate methodologies, project scope, including utilization of data analytics to discharge the above, as well as considering the involvement and work performed by other assurance groups.

4. **ADVISORY SERVICES**

The City Auditor will:

- (a) provide advisory services on an issue or project specific basis as requested by Administration which may include financial advisory, risk management, information technology systems security and control, data analytics and general management advisory services;
- (b) ensure requests received from Administration will be resourced based on a risk assessment basis similar to the determination on audit assurance work;
- (c) provide an independent view and insight on current, new or emerging risks and opportunities facing The City based on City Auditor's knowledge of best practice on risks, controls and governance frameworks;
- (d) ensure advisory service work must not impede the City Auditor's ability to conduct objective audits at a future date;
- (e) determine whether capacity exists to complete advisory requests against the priorities set on the approved audit plan; and
- (f) determine the appropriate methodologies, project scope, including utilization of data analytics to discharge the above.

5. **INVESTIGATIVE SERVICES**

The City Auditor will:

- (a) ensure sufficient professional staffing and technology are employed to support the Whistle-blower Program including intake, assessment, investigation, reporting and corrective action recommendation processes;
- (b) ensure all activities of the Whistle-blower Program are confidential and shared only on a need-to-know basis or as necessary to conclude on the investigation and/or recommend corrective action; and
- (c) establish processes in compliance with Council Whistle-blower Policy CC026.

6. **ACTIVITY REPORTING**

The City Auditor will:

- (a) provide a quarterly report to Audit Committee that includes trending and achievement of City Auditor's Office performance measures as established to

reflect effective delivery of the City Auditor's Office mandate, status of Administration action on the current recommended action plan commitments agreed upon in previous audit reports, and status of deliverables against the approved annual audit plan;

- (b) amend the annual audit plan as needed if the risk profile, on which the annual audit plan is based, significantly changes during any given year, by presenting proposed changes to Audit Committee for approval; and
- (c) provide an annual report to Audit Committee that provides a retrospective summary of highlights and achievements of the year, reflecting the assurance, advisory and investigation services provided.

9. This Bylaw comes into force on the day it is passed.

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0753**

Proposed New Audit Committee Bylaw

EXECUTIVE SUMMARY

A Bylaw Review Working Group (BRWG) was established to complete a review of Audit Committee Bylaw 48M2012 to determine if amendments should be undertaken. The review is now complete and a proposed new Bylaw prepared that builds on the recommendations of Audit Committee's Strategic Working Group (SWG) as well as other identified revisions. This report seeks Audit Committee approval of the proposed bylaw (Attachment 1) prior to forwarding to Council.

ADMINISTRATION RECOMMENDATION:

That Audit Committee recommends:

1. That Attachment 1, the proposed Audit Committee Bylaw, be approved; and
2. That Council give three readings to the proposed Bylaw.

And further, that the Bylaw Review Working Group be thanked for their service.

PREVIOUS COUNCIL DIRECTION / POLICY

Audit Committee is required to review their terms of reference and mandate every three years for compliance with Schedule 'A', Section 1(m) of their Bylaw 48M2012.

The Audit Committee Bylaw 48M2012 came into force on the day of the 2013 Organizational Meeting of Council. The Bylaw was subsequently amended in 2013 (amendments to Schedule 'D' pertaining to the role of the Executive Assistant), in 2016 (amendments to quorum and number of meetings per year, as well as housekeeping amendments) and in 2017 (amendments to citizen appointment terms).

Regular review of the Audit Committee Bylaw (their mandate) reflects best practice in audit governance.

BACKGROUND

A Bylaw Review Working Group (BRWG) was established at the 2019 March 22 Regular Meeting of the Audit Committee to perform a review of Audit Committee Bylaw 48M2012. The BRWG membership is comprised of Councillor E. Woolley, Councillor J. Farkas and Citizen Member L. Caltagirone, supported by a representative from the Law Department, the City Auditor and the Executive Assistant to Audit Committee. The working group met face to face on four occasions prior to the Covid-19 pandemic and virtually three times during the pandemic.

Throughout the review process, the BRWG considered amendments recommended by Audit Committee's Strategic Working Group (Report AC2020-0082), other amendments identified and routine housekeeping matters.

Amendments to the City Auditor Bylaw 30M2004 and City Auditor Charter were considered simultaneously by the BRWG. The City Auditor intends to bring proposed amendments to Bylaw 30M2004 for Audit Committee's approval at the 2020 July 23 meeting.

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0753**

Proposed New Audit Committee Bylaw

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Bylaw Review Working Group identified that Bylaw 48M2012 could be more user-friendly, repetition eliminated, wording streamlined, and the overall layout improved. This was the basis for developing a new bylaw versus amending the current bylaw. The text for discussion for a proposed new Audit Committee Bylaw reflecting the new format is attached (Attachment 1).

The BRWG considered the Attachment to Report AC2020-0082 entitled “Summary of Findings – Outcomes of the Audit Committee 2019 Strategic Review” (Attachment 3) and the proposed new bylaw incorporates many of the strategic objectives developed by the Audit Committee through this Strategic Working Group:

Audit Committee Strategies

1. Redefine the mandate and modernize the role of the Audit Committee
2. Set priorities for the Audit Committee so that important work is addressed first
3. Set aside time for strategic matters
4. Ensure that meeting agendas address the Audit Committee’s priorities
5. Review the membership terms of Audit Committee members
6. Raise the profile of the Audit Committee with Council and Administration
7. Test City strategies by asking good questions and making strategic recommendations

The document “Current Audit Committee Bylaw 48M2012 Comparison to Proposed New Audit Committee Bylaw” (Attachment 2) contains a side by side comparison that addresses changes; both significant and housekeeping with comments, rationale and strategies included.

Below are highlights of a few significant changes proposed for the new Audit Committee Bylaw:

Section 4 – Mandate of the Audit Committee (Strategies 1 and 6)

The BRWG developed a high-level summary statement providing broad perspective on the Audit Committee’s mandate. This mandate sets out the Committee’s major oversight responsibilities and emphasizes their role in providing independent expertise and advice to Council.

Section 5 - Authority of Audit Committee (Strategies 1, 2, 3 and 4)

The BRWG created a new section, “Authority of Audit Committee” grouping together matters where Council have delegated authority to Audit Committee.

Section 5(c) provides for Audit Committee to request reports from the City Manager on matters that have material or significant financial impact to The City. This recommendation by the SWG ensures Audit Committee has opportunity to preview any matter with material or significant financial or risk related impact to The City. This shifts from a traditional forensic role to one that includes impartial input before and during important decisions about finance and risk. This proactive approach allows the Committee to be informed of emerging issues before other decisions constrain The City and allows prioritization of issues based on reporting from City Manager.

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0753**

Proposed New Audit Committee Bylaw

Section 5(d) provides for Audit Committee to link reporting from Administration and civic entities to strategic decisions made each year on matters they wish to focus on as reflected in their annual work plan. Formerly the bylaw was very prescriptive on areas the Audit Committee should receive reporting. This prescriptive approach encouraged annual routine reporting rather than providing for emerging or strategic issues.

Section 5(f) provides that Audit Committee must pre-approve all audit or non-audit services performed by the External Auditor. This is comparable to the current bylaw; however, the Chair's pre-approval limit has been increased from \$25k to \$50k and a limit established on the amount of additional services the External Auditor can provide to The City. The Chair's pre-approval limit has been increased to more closely reflect average fees that may be levied for audit services. The limit for additional services has been set to not exceed the total audit fees approved to ensure the independence of the External Auditor is not compromised.

Section 7, Terms of Appointment (Strategy 5)

Under the current bylaw members of the public are appointed by Council for two year staggered terms and Members of Council serve for one term. The SWG recommended, and the BRWG agreed, that Members of Council serve two year terms beginning in 2021 to provide additional continuity and effectiveness to the Audit Committee.

Section 10, Quorum (Strategy 1)

The quorum of Audit Committee meetings under the current bylaw is four members; two Councillors and two Electors. There have been challenges ensuring quorum is met. The BRWG agreed that quorum of four members of the Committee was appropriate, however, changed the composition to four members, of which only one must be a Member of the Public. The requirement for only one Member of the Public to be present to achieve quorum still maintains both council and public representation at meetings.

Section 11, Appointment of Chair and Vice-Chair (Strategy 5)

On the advice of the City Clerk, the BRWG recommend that appointments of the Chair and Vice-Chair are made at the Organizational Meeting of Council. This permits the Chair (and the Vice-Chair as an alternate) to sit as a member of the Priorities and Finance Committee (PFC) immediately. In the past PFC have waited for the appointment of these positions (to be made at the first Audit Committee meeting following the Organizational Meeting) to determine the representative from Audit Committee. The delay in appointing a Chair and Vice-Chair of Audit left PFC with one member appointment outstanding; sometimes for several meetings.

Schedule A (Strategies 1, 2 and 4)

The most significant change proposed to Schedule A is that Section 6, Regarding Administration's Compliance and Ethics, has been deleted. The BRWG believe the Audit Committee's annual work plan allows the Committee flexibility to determine whether compliance with policies and legislation or ethics should be included for oversight in any given year. Ethics are also included through the work of the City Auditor and the External Auditor. This moves the Audit Committee away from the more prescriptive approach used in the current bylaw.

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0753**

Proposed New Audit Committee Bylaw

Stakeholder Engagement, Research and Communication

In developing the new Audit Committee Bylaw, the Bylaw Review Working Group engaged with Administration, the City Auditor, the Law Department, the External Auditor (Deloitte LLP) and Audit Committee's Strategic Working Group.

Strategic Alignment

Council Priority: A well-run City: Calgary has a modern and efficient municipal government that is focused on resilience and continuous improvement to make life better every day for Calgarians by learning from citizens, partners, and others.

Social, Environmental, Economic (External)

No social, environmental or external economic impacts were identified.

Financial Capacity

Current and Future Operating Budget:

There are no operating budget implications.

Current and Future Capital Budget:

Not applicable.

Risk Assessment

Modernization of the Audit Committee Bylaw reflects continuous improvement in governance and provides the Audit Committee with the flexibility to address emerging issues of significant risk or financial impact to The City. The Audit Committee is committed to providing Council with high level financial expertise and advice and the proposed bylaw will assist them in moving forward with a more strategic view.

REASON(S) FOR RECOMMENDATION(S):

Pursuant to Bylaw 48M2012 the Audit Committee is required to review their bylaw every three years. This report contains the details with respect to a proposed new Audit Committee bylaw developed for consideration by Audit Committee and Council. This review formed part of the 2019 Audit Committee Work Plan.

ATTACHMENT(S)

1. Text for Discussion for Proposed New Audit Committee Bylaw
2. Audit Committee Bylaw 48M2012 Comparison to Proposed New Audit Committee Bylaw
3. Summary of Findings – Outcomes of the Audit Committee 2019 Strategic Review
4. Bylaw 48M2012, Audit Committee Bylaw (Current Version)

Proposed Text for a new Audit Committee Bylaw

SHORT TITLE

1. This Bylaw may be cited as the "Audit Committee Bylaw".

DEFINITIONS

2. (1) In this Bylaw,
 - (a) "*Administration*" means the administration of *The City*;
 - (b) "*Chief Financial Officer*" means the member of *Administration* holding the position of Chief Financial Officer;
 - (c) "*City Auditor*" means the individual appointed by *Council* to the designated officer position of City Auditor pursuant to Bylaw 30M2004;
 - (d) "*City Manager*" means the individual appointed by *Council* as its chief administrative officer pursuant to Bylaw 8M2001;
 - (e) "*Council*" means the municipal council of *The City*;
 - (f) "*External Auditor*" means the person or firm appointed by *Council* to be *The City's* external auditor;
 - (g) "*Organizational Meeting*" means the annual organization meeting of Council pursuant to section 192(1) of the *Municipal Government Act*, R.S.A. 2000, c. M-26;
 - (h) "*The City*" means the municipal corporation of The City of Calgary.
- (2) All schedules attached to this Bylaw form part of the Bylaw.
- (3) Where this Bylaw refers to any statute, regulation or bylaw, the reference is to the statute, regulation or bylaw as amended, whether amended before or after the commencement of this Bylaw, and includes reference to any statute, regulation or bylaw that may be substituted in its place.

CONTINUATION OF AUDIT COMMITTEE

3. The Audit Committee established by resolution of *Council* on 1979 November 19 is hereby continued.

MANDATE OF AUDIT COMMITTEE

4. (1) The mandate of the Audit Committee is to:

- (a) assist *Council* in fulfilling its oversight and stewardship responsibilities by gaining and maintaining reasonable assurance in relation to:
 - (i) the integrity of *The City's* annual financial statements;
 - (ii) effective governance, risk management and compliance, including the evaluation of the performance of control systems and processes;
 - (iii) the qualifications, independence, and effectiveness of the *External Auditor* and the *City Auditor*;
 - (iv) the utilization of a confidential and independent Whistle-blower Program; and
 - (v) additional matters described herein or as may be assigned to the Audit Committee by *Council*.
 - (b) support *Council's* effective decision-making by being involved in a broader governance role through oversight and responsibilities as indicated in Schedules "A", "B" and "C" of this Bylaw.
- (2) The Audit Committee reports to *Council*.

AUTHORITY OF AUDIT COMMITTEE

5. The Audit Committee is authorized to:

- (a) assign the setting of Audit Committee meeting agendas to the Chair;
- (b) institute special audits, program reviews, and special studies, including the standing authority to retain expertise through external consultants;
- (c) request reports from the *City Manager* regarding:
 - (i) matters that have a material or significant financial impact to *The City*; and
 - (ii) *The City's* Integrated Risk Management and corporate risks, at least twice a year;
- (d) receive reports from *Administration* and civic entities in support of fulfilling the Audit Committee work plan and to recommend to *Council* any actions deemed appropriate;
- (e) recommend the appointment of the *External Auditor* to *Council* for approval;
- (f) pre-approve all audit and non-audit services performed by the *External Auditor* and further provide that:

- (i) the Chair can pre-approve additional audit or non-audit services, performed by the *External Auditor*, up to \$50,000 total annually and must report those approvals to the Audit Committee; and
- (ii) on an annual basis, total fees for non-audit services performed by the *External Auditor* shall not exceed the total audit fees approved for The City of Calgary consolidated audit, including all subsidiary and related entity audits;
- (g) recommend the appointment of the *City Auditor* to *Council* for approval;
- (h) approve the *City Auditor's* Office audit plan and forwards to *Council* for information; the Audit Committee or *Council* may not remove items from the *City Auditor's* audit plan but may direct items be added to the plan;
- (i) recommend *Council* approval of the *City Auditor's* Office budget, annually or as required by *Council* budget guidelines;
- (j) appoint an individual to the position of Executive Advisor to provide support to the Audit Committee;
- (k) approve any changes to the Executive Advisor's position description;
- (l) approve the *City Auditor's* and Executive Advisor's personal expense reports, or other expenditures as required, through the Chair;
- (m) establish sub-committees as required.

COMPOSITION

6. (1) The Audit Committee is composed of the following:
 - (a) four members of *Council*; and
 - (b) three public members that reside in Alberta and are not employed by *The City*
 to be appointed at the *Organizational Meeting*.
- (2) The Mayor is an ex-officio member of the Audit Committee.
- (3) Public members must be financially literate possessing a set of skills, experience and knowledge of financial matters that support informed and effective decisions.
- (4) The Audit Committee identifies preferred skills for new public members, pursuant to *Council* policy CP2016-03.

TERMS OF APPOINTMENT

7. (1) Members of *Council* are appointed:

- (a) for a one-year term commencing on the date of the 2020 *Organizational Meeting*; and
 - (b) for two-year terms, commencing on the date of the 2021 *Organizational Meeting*.
- (2) Council *member* appointments expire on the date of the *Organizational Meeting* in the year of the expiry of the member's term.
- (3) Public members are appointed for two-year terms commencing on the date of the *Organizational Meeting* and expiring on the date of the *Organizational Meeting* in the year of the expiry of the member's term.
- (4) Public members may serve a maximum of six consecutive years.
- (5) Despite subsection (3), a public member may serve until his or her successor is appointed. The service of a public member beyond the appointed term shall not count toward the limit on the length of service as set out in subsection (4) if the additional service is one year or less.
- (6) Vacancies on the Audit Committee caused by retirement, resignation or incapacitation of a member may be filled by resolution of *Council* for the balance of that member's term. The Audit Committee may continue to operate and conduct business until vacancies are filled provided that the quorum requirement is met.
- (7) When an appointment is made to fill a public member vacancy pursuant to subsection (6):
 - (a) if the balance of the term to be served is one year or less, that service shall not count toward the limit on the length of service set out in subsection (4); and
 - (b) if the balance of the term to be served is more than one year, that service shall count toward the limit on the length of service set out in subsection (4).
- (8) Despite subsection (4), a public member may serve more than six consecutive years if authorized by a two-thirds vote of *Council*.
- (9) The term of a public member who was appointed prior to the coming into force of this Bylaw continues until it expires in accordance with *Council's* resolution appointing that member.

CONTINUING EDUCATION

- 8. (1) The Chair may authorize members of the Audit Committee to have the opportunity to obtain education, either from *The City, the City Auditor, the External Auditor* or through outside programs, to address identified gaps in knowledge, to further support the mandate of the Audit Committee.

- (2) Funding to support appropriate education for Audit Committee members may be included in the Audit Committee's budget.

MEETINGS AND ATTENDANCE

9. (1) The Audit Committee must meet not less than six times per year.
- (2) Only members of the Audit Committee are entitled to vote.
- (3) The following individuals, or their designates, must attend all Audit Committee meetings:
 - (a) the *Chief Financial Officer*;
 - (b) the *City Auditor*;
 - (c) the *External Auditor*; and
 - (d) the Executive Advisor

QUORUM

10. (1) The quorum of the Audit Committee is four members, including a minimum of one public member.
- (2) A member participating remotely is deemed to be present at the meeting and counts towards the quorum.

APPOINTMENT OF CHAIR AND VICE-CHAIR

11. (1) The Chair and Vice-Chair are appointed by *Council* at the *Organizational Meeting*.
- (2) The Chair and Vice-Chair must be members of *Council*.

EXTERNAL AUDITOR

12. The functions of the *External Auditor* are more fully set out in Schedule "B".

CITY AUDITOR

13. The functions of the *City Auditor* are more fully set out in Schedule "C".

EXECUTIVE ADVISOR

14. (1) The Executive Advisor reports to the Audit Committee through the Chair.
- (2) The Executive Advisor will provide reporting, research, planning, documentation and meeting logistical support to the Audit Committee.

REPEAL COMING INTO FORCE

15. Bylaw 48M2012 is hereby repealed.

COMING INTO FORCE

16. This Bylaw comes into force on 26 October 2020.

Text for Discussion

SCHEDULE “A”

1. REGARDING THE PURPOSE AND ROLE OF AUDIT COMMITTEE

The Audit Committee:

- (a) oversees, reviews and assesses the relationships between the *Administration*, the *City Auditor* and *External Auditor*;
- (b) assesses the performance of the *External Auditor* and the *City Auditor* and forwards the performance assessments to *Council* for information;
- (c) assesses the performance of the Executive Advisor through the Audit Committee Chair;
- (d) oversees its governance responsibility with audit committees of *The City’s* major autonomous civic entities, as determined by the Audit Committee;
- (e) develops a detailed annual work plan which is forwarded to *Council* for information;
- (f) develops an annual budget for the Audit Committee and recommends it to *Council* for approval, as part of *The City’s* annual budget process;
- (g) must review its terms of reference and mandate as set out in this Bylaw and as they may impact the City Auditor Bylaw 30M2004, at least every three years and recommend any changes to *Council*; and
- (h) must perform an annual self-assessment on the performance of the Audit Committee.

2. REGARDING THE CITY’S FINANCIAL DISCLOSURE AND ACCOUNTING PRACTICES

The Audit Committee:

- (a) reviews and oversees the integrity of the annual financial statements and recommends their approval to *Council*;
- (b) reviews and discusses *The City’s* compliance with financial reporting, policies and procedures with *Administration* and the *External Auditor*;
- (c) engages *Administration* and the *External Auditor* in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results;
- (d) in consultation with the *Chief Financial Officer* and *External Auditor*, review and discuss significant new accounting standards and financial reporting developments to understand any material impact on financial results. A detailed

analysis, prepared by *Administration*, on the implications of any changes, as well as the progress made in the adoption of new accounting standards, may be requested; and

- (e) maintains open lines of communication with the *External Auditor* and *Administration*.

3. REGARDING SPECIAL AUDITS, PROGRAM REVIEWS OR SPECIAL STUDIES

The Audit Committee:

- (a) oversees and approves special audits, program reviews or special studies be conducted either by the Audit Committee or by the *City Auditor's Office*. If required, budget funds will be provided by the Audit Committee to the *City Auditor's Office*; and
- (b) reviews the results of special audits, program reviews or special studies, together with responses, and forwards to *Council* for information.

4. REGARDING INTERNAL CONTROL AND RISK

The Audit Committee:

- (a) oversees the integrity of *The City's* internal controls;
- (b) oversees *The City's* process of risk identification, analysis and management procedures to mitigate risk; and
- (c) oversees, through the *City Auditor's Office*, the operation of *Council Policy CC025, Whistle-Blower Policy*.

SCHEDULE “B”

1. REGARDING THE EXTERNAL AUDITOR

The Audit Committee:

- (a) prior to the commencement of the annual external financial audit, reviews the audit plan and estimated audit fees with the *External Auditor* and discusses the timing and extent of audit procedures, materiality, significant audit risks and areas of audit focus and overall audit strategy. The audit plan is forwarded to *Council* for information;
 - (b) in conjunction with *Administration*’s presentation of the annual financial statements, receives and reviews the *External Auditor*’s year end audit results report. This report is to be forwarded to *Council* for information;
 - (c) requires the *External Auditor* to express an opinion on *The City*’s financial statements, in accordance with professional standards;
 - (d) receives and reviews the *External Auditor*’s management letter(s), and reviews *Administration* responses, and forwards, either in full or in summary, to *Council* for information. Through query, confirm that any recommendations made by the *External Auditor* are addressed by *Administration* in a timely manner;
 - (e) must *meet* with the *External Auditor*, in the absence of *Administration*, at least quarterly;
 - (f) annually assesses the performance of the *External Auditor*, following the presentation of the *External Auditor*’s current management letter and forwards this assessment to *Council* for information;
 - (g) must meet at least annually with *Administration*, in the absence of the *External Auditor*, at the time of the *External Auditor* performance assessment; and
 - (h) receives and reviews the *External Auditor*’s annual independence letter. Through query, confirm the process by which the *External Auditor* maintains their independence and objectivity.
2. Unless otherwise determined by *Council* the *External Auditor* contract is awarded on a five-year basis, subject to satisfactory annual assessments. The contract may be extended annually beyond five years, based on Audit Committee’s recommendation for *Council*’s approval.

SCHEDULE “C”

1. REGARDING THE CITY AUDITOR

The Audit Committee:

- (a) in accordance with Bylaw 30M2004, oversees and ensures the authority, accountability, independence and objectivity of the *City Auditor* on behalf of *Council*;
- (b) reviews the City Auditor’s Office audit plan and budget with the *City Auditor* and discusses the scheduling, resourcing, risk areas, coverage and overall audit strategy;
- (c) ensures that *City Auditor’s* Office undergoes an independent assessment review and confirms professional standards at least every five years;
- (d) assesses annually, the performance of the *City Auditor*, by way of a formal review process through the Audit Committee Chair and forwards this performance assessment to *Council* for information;
- (e) reviews and forwards to *Council* for information, the *City Auditor’s* Office quarterly and annual status reports which includes activity of the Whistle-blower Program;
- (f) receives directly from the *City Auditor* any individual audit report, including as applicable, *Administration’s* response and corrective action to be taken to specific audit recommendations, and forwards these to *Council* for information;
- (g) receives directly from the *City Auditor*, at least annually, a report providing the status of *Administration* action on the recommendations contained in previous audit reports; this report will be forwarded to *Council* for information; and
- (h) ensures that the Audit Committee work plan includes regular closed meeting discussions between Audit Committee and the *City Auditor* no less than quarterly.

CURRENT AUDIT COMMITTEE BYLAW 48M2012 COMPARISON TO PROPOSED NEW AUDIT COMMITTEE BYLAW				
Current State – Audit Committee Bylaw 48M2012		Proposed New Audit Committee Bylaw		Comments / Rationale / Strategies
				SWG = Strategic Working Group BRWG = Bylaw Review Working Group
Page 1 Whereas	WHEREAS Council has approved AC2011-72 and the Audit Committee Terms of Reference contained therein, and considers it necessary to pass a bylaw continuing the Audit Committee for The City of Calgary;		Deleted	Not applicable to proposed bylaw
Page 1 and 2 Section 1, 2 & 3	SHORT TITLE 1. This Bylaw may be cited as the “Audit Committee Bylaw”. DEFINITIONS 2. (1) In this Bylaw, <i>“Administration”</i> means the administration of <i>The City</i> ; <i>“Chief Financial Officer”</i> means the member of <i>Administration</i> holding the position of Chief Financial Officer; <i>“City Auditor”</i> means the individual appointed by <i>Council</i> to the designated officer position of City Auditor pursuant to Bylaw	Page 1 and 2 Section 1, 2 & 3	No Change	No Change
Short Title Definitions Continuation of Audit Committee		Short Title Definitions Continuation of Audit Committee		

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

	<p>30M2004;</p> <p>“<i>City Manager</i>” means the individual appointed by <i>Council</i> as its chief administrative officer pursuant to Bylaw 8M2001;</p> <p>“<i>Council</i>” means the municipal council of <i>The City</i>;</p> <p>“<i>External Auditor</i>” means the person or firm appointed by <i>Council</i> to be <i>The City</i>’s external auditor;</p> <p>“<i>Organizational Meeting</i>” means the annual organization meeting of Council pursuant to section 192(1) of the <u><i>Municipal Government Act</i></u>, R.S.A. 2000, c. M-26;</p> <p>“<i>The City</i>” means the municipal corporation of The City of Calgary.</p> <p>(2) All schedules attached to this Bylaw form part of the Bylaw.</p> <p>(3) Where this Bylaw refers to any statute, regulation or bylaw, the reference is to the statute, regulation or bylaw as amended, whether amended before or after the commencement of this Bylaw, and includes</p>			
--	--	--	--	--

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	reference to any statute, regulation or bylaw that may be substituted in its place.			
	CONTINUATION OF AUDIT COMMITTEE			
	3. The Audit Committee established by resolution of <i>Council</i> on 1979 November 19 is hereby continued.			
Page 2 Section 4 Mandate of Audit Committee	4. (1) The Audit Committee is responsible for the following: (a) overseeing the integrity of <i>The City's</i> financial statements; (b) recommending the selection of the <i>External Auditor</i> ; (c) recommending the selection of the <i>City Auditor</i> ; (d) overseeing the performance of the <i>External Auditor</i> and the <i>City Auditor</i> ; (e) overseeing, reviewing and assessing the relationship between the <i>Administration</i> , the <i>External Auditor</i> and the <i>City Auditor</i> ;	Page 2 Section 4 Mandate of Audit Committee	(1) The mandate of the Audit Committee is to: (a) assist <i>Council</i> in fulfilling its oversight and stewardship responsibilities by gaining and maintaining reasonable assurance in relation to: (i) the integrity of <i>The City's</i> annual financial statements; (ii) effective governance, risk management and compliance, including the evaluation of the performance of control systems and processes; (iii) the qualifications, independence, and effectiveness of the <i>External Auditor</i> and the <i>City Auditor</i> ; (iv) the utilization of a confidential and independent Whistle-blower Program; and (v) additional matters described herein or as may	A summary statement clarifying Audit Committee's mandate with focus specifically on their broader responsibilities. Detail on Audit Committee's authority as delegated by Council has been moved to Section 5 under "Authority of Audit Committee".

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>(f) overseeing the process of <i>The City's</i> Integrated Risk Management System;</p> <p>(g) overseeing <i>The City's</i> compliance with laws, regulations and internal policies such as: disclosure and internal controls, including finance and accounting; legal compliance; and codes of conduct;</p> <p>(h) overseeing, through the <i>City Auditor</i>, the Whistleblower Program;</p> <p>(i) coordinating its governance responsibility with audit committees of <i>The City's</i> major autonomous civic entities;</p> <p>(j) conducting special reviews as recommended by the Audit Committee or <i>Council</i>.</p> <p>(2) The Terms of Reference for the Audit Committee are more fully set out in Schedule A.</p> <p>(3) The Audit Committee reports to Council.</p>		<p>be assigned to the Audit Committee by <i>Council</i>.</p> <p>(b) support <i>Council's</i> effective decision-making by being involved in a broader governance role through oversight and responsibilities as indicated in Schedules "A", "B" and "C" of this Bylaw.</p> <p>(2) The Audit Committee reports to Council.</p>	<p>This sub-section added resulting from the Strategic Working Group (SWG) wish to emphasize Audit Committee's role in providing independent expertise and advice to Council concerning matters of finance and risk.</p> <p>No change – moved from Schedule A to Section 4, Mandate</p> <p>STRATEGIES Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee Strategy #6 – Raise the profile of the Audit Committee with Council and Administration.</p>
	New Section 5	Page 2 Section 5 Authority of Audit Committee	<p>5. The Audit Committee is authorized to:</p> <p>a) Assign the setting of Audit Committee meeting agendas to the Chair.</p>	<p>The authority of Audit Committee has been grouped under Section 5. Provides clarity on matters that Council delegates the authority to the Audit Committee.</p> <p>Housekeeping - Clarity that the Audit Committee delegates the Agenda setting to the Chair</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

		<p>b) Institute special audits, program reviews, and special studies, including the standing authority to retain expertise through external consultants.</p> <p>c) Request reports from the <i>City Manager</i> regarding:</p> <p>(a) matters that have a material or significant financial impact to <i>The City</i>; and</p> <p>(b) <i>The City's</i> Integrated Risk Management and corporate risks, at least twice a year.</p> <p>d) Receive reports from <i>Administration</i> and civic entities in support of fulfilling the Audit Committee work plan and to recommend to <i>Council</i> any actions deemed appropriate.</p> <p>e) Recommend the appointment of the <i>External Auditor</i> to <i>Council</i> for approval.</p> <p>f) Pre-approve all audit and non-audit services performed by the <i>External Auditor</i> and further provide that:</p> <p>(a) The Chair can pre-approve additional audit or non-audit services, performed by the <i>External Auditor</i>, up to \$50,000 total annually and must report those approvals to the Audit Committee; and</p>	<p>Housekeeping – reworded to clarify the Audit Committee's ability to request an audit of any type (performance, operational, financial, compliance, follow-up, etc.) and to allow the retention of an external consultant if necessary to perform the work.</p> <p>Recommendation from the SWG to ensure the Audit Committee has opportunity to preview any matter with material or significant financial or risk related impact to The City (on request). This is a shift from a traditional forensic role to one that includes impartial input before and during important decisions about finance and risk. To adopt a proactive approach of being informed of emerging issues before other decisions constrain The City and allows prioritization of issues based on reporting from City Manager.</p> <p>The SWG recommended that Audit Committee define the areas that require their review, prioritize high risk areas, ensure strategic matters are included on the work plan and request reporting be streamlined. The SWG recommended that the annual work plan align its major activities with Council's priority setting and budget process. This is a departure from the previously prescriptive approach taken with current bylaw.</p> <p>Clarification that Audit Committee makes a recommendation and Council makes the final decision by approving the appointment.</p> <p>Increased the Chair's pre-approval amount from \$25,000 to \$50,000 to more closely reflect fees levied. This was formerly reported to Audit Committee via the Quarterly Status Report. This report was discontinued several years ago and is no longer contained within the Audit Committee Work Plan. The Chair of Audit reports any approvals of audit and non-audit services performed by External Auditor directly to Audit Committee in the public or closed portion of the meeting, as appropriate.</p>
--	--	--	---

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

			<p>(b) On an annual basis, total fees for non-audit services performed by the <i>External Auditor</i> shall not exceed the total audit fees approved for The City of Calgary consolidated audit, including all subsidiary and related entity audits.</p> <p>g) Recommend the appointment of the <i>City Auditor</i> to <i>Council</i> for approval.</p> <p>h) Approve the <i>City Auditor's</i> Office annual audit plan and forwards to <i>Council</i> for information; the Audit Committee or <i>Council</i> may not remove items from the <i>City Auditor's</i> audit plan but may direct items be added to the plan.</p> <p>i) Review and recommend <i>Council</i> approval of the <i>City Auditor's</i> Office budget, annually or as required by <i>Council</i> budget guidelines.</p> <p>j) Appoint an individual to the position of Executive Advisor to provide support to the Audit Committee.</p> <p>k) Review and approve the <i>City Auditor's</i> and Executive Advisor's personal expense reports, or other expenditures as required, through the Chair.</p> <p>l) Establish sub-committees as required.</p>	<p>Setting a limit on the amount of additional non-audit services the external auditor may perform at The City to ensure independence is not compromised.</p> <p>Clarification that Audit Committee makes a recommendation and Council makes the final decision by approving the appointment.</p> <p>No change</p> <p>No change</p> <p>Slight change – substituting the words “to provide support to the Audit Committee” instead of “to manage the Audit Resource Management” to more accurately reflect the role.</p> <p>Slight change – included both City Auditor and Executive Advisor in one statement.</p> <p>No change.</p> <p><u>STRATEGIES</u> Strategy #2 – Set priorities for the Audit Committee so that the important work is addressed first.</p>
--	--	--	---	---

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

				<p>Strategy #3 – Set aside time for strategic matters.</p> <p>Strategy #4 – Ensure that meeting agendas address the Audit Committee priorities</p> <p>Strategy #7 – Test City strategies by asking good questions and making strategic recommendations.</p>
<p>Page 2 Section 5</p> <p>Composition</p>	<p>The Audit Committee is composed of the following:</p> <p>(a) four members of Council and</p> <p>(b) three electors</p> <p>to be appointed at the Organizational Meeting.</p>	<p>Page 3 Section 6</p> <p>Composition</p>	<p>1) The Audit Committee is composed of the following:</p> <p>(a) four members of <i>Council</i>; and</p> <p>(b) three public members that reside in Alberta and are not employed by <i>The City</i></p> <p>to be appointed at the <i>Organizational Meeting</i>.</p> <p>(2) The Mayor is an ex-officio member of the Audit Committee.</p> <p>(3) Public members must be financially literate possessing a set of skills, experience and knowledge of financial matters that support informed and effective decisions.</p> <p>(4) The Audit Committee identifies preferred skills for new public members, pursuant to <i>Council</i> policy CP2016-03.</p>	<p>An Elector is a person eligible to vote in a General Election as legislated by the Local Authorities Election Act. This means they must have resided in Alberta for the 6 consecutive months preceding election day and their residence must be located in the area on election day.</p> <p>Citizens from the communities surrounding Calgary (eg. Chestermere, Airdrie, Cochrane, etc.) are not able to volunteer to serve on Audit Committee pursuant to the current eligibility requirements.</p> <p>Using the words “public members that reside in Alberta” versus “electors” gives eligibility to a wider pool of candidates.</p> <p>Slight change. Appendix A, Sub-section 14 of the Procedure Bylaw 35M2017 refers to the rights and privileges of the Mayor as an ex-officio member (same rights as other members) so further detail on those privileges not required as part of this bylaw.</p> <p>There is no process for assessing qualifications of public members to determine whether the potential candidate is financially literate versus qualifying as a financial expert. This statement expresses in more general terms what is required of a public member.</p> <p>The SWG recommended that Audit Committee identifies preferred skills needed on the Committee. There is a process developed pursuant to the Council Policy. Committee will communicate to Council their specific requirements for consideration of appointments at the Organizational Meeting.</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

				STRATEGY Strategy #5 – Review the membership terms of Audit Committee Members.
Page 3 Section 6 and 7 Term of Appointment Vacancies	<p>(1) Members of Council are appointed for one-year terms, expiring on the day of the Organizational Meeting.</p> <p>(2) Elector members are appointed for two-year terms, expiring on the day of the Organizational Meeting in the year of the expiry of the member's term.</p> <p>(3) The term of an elector member who was appointed prior to the coming into force of this Bylaw continues until it expires in accordance with the Council resolution appointing that elector member.</p> <p>(4) Elector members may serve a maximum of six consecutive years.</p> <p>(5) Despite subsection (2), an elector member may serve until his or her successor is appointed. The service of a public member beyond the appointed term shall not count toward the limit on the length of service as set out in subsection (4) if the additional service is one year or less.</p>	Page 4 Section 7 Term of Appointment	<p>7(1) Members of Council to be appointed for a one-year term at the 2020 October 26 Organizational Meeting. Members of Council to be appointed for two-year terms for subsequent years effective the 2021 Organizational Meeting. Appointments expire on the day of the Organizational Meeting in October in the year of the expiry of the member's term.</p> <p>(2) Public members are appointed for two-year terms, to be effective on the day of the Organizational Meeting, expiring on the day of the Organizational Meeting in the year of the expiry of the member's term.</p> <p>(3) Public members may serve a maximum of six consecutive years.</p> <p>(4) Despite subsection (2), a public member may serve until his or her successor is appointed. The service of a public member beyond the appointed term shall not count toward the limit on the length of service as set out in subsection (3) if the additional service is one year or less.</p> <p>(5) Vacancies on the Audit Committee caused by retirement, resignation or incapacitation of a member may be filled by resolution of Council for the balance of that member's term. The Audit Committee may continue to operate and conduct business until vacancies are filled provided that the quorum requirement is met.</p>	<p>The SWG recommended increasing the length of the appointment term for council members from one year to two years to provide greater continuity and effectiveness to Audit Committee.</p> <p>Two year terms to be effective in 2021 to line up with the four-year term for Councillors. For 2020 the term should remain at one-year for Councillors.</p> <p>No change</p> <p>No change</p> <p>No change</p> <p>Moved from Section "7. Vacancies" to be included in Section "7. Term of Appointment". Added the words "incapacitation" for clarity should a member become ill and unable to perform their duties.</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>6) When an appointment is made to fill a public member vacancy pursuant to subsection (5):</p> <p>(a) If the balance of the term to be served is one year or less, that service shall not count toward the limit on the length of service set out in subsection (4); and</p> <p>(b) If the balance of the term to be served is more than one year, that service shall count toward the limit on the length of service set out in subsection (4).</p>		<p>(6) When an appointment is made to fill a public member vacancy pursuant to subsection (5):</p> <p>(a) If the balance of the term to be served is one year or less, that service shall not count toward the limit on the length of service set out in subsection (3); and</p> <p>(b) If the balance of the term to be served is more than one year, that service shall count toward the limit on the length of service set out in subsection (3).</p> <p>(7) Despite subsection (3), a public member may serve more than six consecutive years if authorized by a two-thirds vote of Council.</p> <p>(8) The term of a public member who was appointed prior to the coming into force of this Bylaw continues until it expires in accordance with Council's resolution appointing that member.</p>	<p>No change</p> <p>No change</p> <p>No change</p> <p>STRATEGY Strategy #5 – Review the membership terms of Audit Committee Members.</p>
Page 4 Section 8 Meetings	The Audit Committee must meet not less than six times per year.		See Page 5, Meetings and Attendance, Section 9(1)	No Change
	New Section 8	Page 4 Section 8 Continuing Education	<p>(1) The Chair may authorize members of the Audit Committee to have the opportunity to obtain education, either from <i>The City, the City Auditor, the External Auditor</i> or through outside programs, to address identified gaps in knowledge, to further support the mandate of the Audit Committee.</p>	<p>Continuing Education was previously located in Schedule A, Section 9 of current Bylaw.</p> <p>Slight change – Section 8(1) provides the Chair with the discretion to approve education members may require to enhance their knowledge and perform their duties on Audit Committee. Also specified are the areas where further education may be provided (some with no impact</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

			(2) Funding to support appropriate education for Audit Committee members may be included in the Audit Committee's budget.	on Audit Committee budget). No Change STRATEGY Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee.
Page 4 Section 9 Quorum	The quorum of the Audit Committee is four members, comprised of two elector members and two members of Council.	Page 5 Section 10 Quorum	(1) The quorum of the Audit Committee is four members, including a minimum of one public member. (2) A member participating remotely is deemed to be present at the meeting and counts towards the quorum.	Revising quorum requirements to a minimum of one public member assists the Audit Committee achieve quorum while continuing to maintain both public and council representation at the meeting. New sub-section reflecting recent Procedure Bylaw 35M2017 amendments allowing remote participation at meetings by both members of Council and public members. STRATEGY Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee.
Page 4 Section 10 Appointment of Chair and Vice-Chair	(1) At the first meeting of the Audit Committee following the Organizational Meeting the Audit Committee must appoint a Chair and Vice-Chair. (2) The Chair and Vice-Chair must be members of Council. (3) The Chair has the responsibility and authority to set the agenda for Audit Committee meetings.	Page 5 Section 11 Appointment of Chair and Vice-Chair	(1) The Chair and Vice-Chair are appointed by Council at the Organizational Meeting. (2) The Chair and Vice-Chair must be members of Council.	City Clerk proposed this amendment that Council appoint the Chair and Vice Chair. Chair of Audit is also automatically appointed to membership of the Priorities and Finance Committee with the Vice-Chair as an Alternate. Appointment of an Audit Chair and Vice-Chair at the Organizational Meeting provides Priorities and Finance Committee with the member immediately rather than waiting for the 1 st meeting following the Organizational meeting to determine membership. No Change Responsibility for agenda setting has been placed under Section 5, Authority of Audit Committee. STRATEGY Strategy #5 – Review the membership terms of Audit

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

				Committee Members.
Page 4 Section 11 Attendance at Meetings	<p>(1) All members of Council may attend Audit Committee meetings but only members of the Audit Committee are entitled to vote.</p> <p>(2) The Mayor is a member ex officio of the Audit Committee and is entitled to take part in discussion and debate and to vote.</p> <p>(3) The following individuals, or their designates, must attend all Audit Committee meetings:</p> <p>(a) City Manager or Chief Financial Officer;</p> <p>(b) City Auditor; and</p> <p>(c) Executive Assistant if so appointed.</p> <p>(4) The External Auditor must attend all Audit Committee meetings.</p>	Page 5 Section 9 Meetings and Attendance	<p>(1) The Audit Committee must meet not less than six times per year.</p> <p>(2) Only members of the Audit Committee are entitled to vote.</p> <p>(3) The following individuals, or their designates, must attend all Audit Committee meetings:</p> <p>(a) <i>Chief Financial Officer;</i></p> <p>(b) <i>City Auditor;</i></p> <p>(c) <i>External Auditor;</i> and</p> <p>(d) Executive Advisor</p>	<p>No Change</p> <p>No Change, just streamlining wording. No change to non-members being unable to vote.</p> <p>The Mayor is listed as a member of Audit Committee under Section 6 – Composition and is eligible to count for quorum, take part in discussion, debate and vote (no change).</p> <p>Removed City Manager as a required attendee at meetings. The Chief Financial Officer designates an individual to represent the CFO if unable to attend.</p> <p><u>STRATEGY</u> Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee</p>
Page 4 Section 12 Honorarium	Deleted by 39M2016, 2016 October 24.		Deleted	Not applicable to proposed new bylaw.
Page 4 Section 13 Sub-committees	The Audit Committee is authorized to establish sub-committees as required.	Page 3 Section 5	The Audit Committee is authorized to:	No Change – moved under Authority of Audit Committee in Section 5(13)
			m) Establish sub-committees as required.	

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

Page 5 Section 14 External Auditor	(1) The Audit Committee must recommend to Council the appointment of the External Auditor as required from time to time. (2) The functions of the External Auditor are more fully set out in Schedule 'B'.	Page 5 Section 12 External Auditor	(See Section 5(5), Authority of Audit Committee Re: External Auditor appointment) The functions of the External Auditor are more fully set out in Schedule 'B'.	No Change.
Page 5 Section 15 City Auditor	(1) The Audit Committee must recommend to Council the appointment of an individual to the designed officer position of City Auditor as established in Bylaw 30M2004 as required from time to time. (2) The functions of the City Auditor and the relationship of the City Auditor to Audit Committee are more fully set out in Schedule 'C'.	Page 3 Section 5(7) Authority of Audit Committee	(See Section 5(7), Authority of Audit Committee Re: City Auditor appointment) The functions of the <i>City Auditor</i> are more fully set out in Schedule "C".	Streamlined statement directing the reader to Schedule C for more information.
Page 5 Section 16 Executive Assistant	(1) The Audit Committee may appoint an Executive Assistant. (2) The functions of the Executive Assistant are more fully set out in Schedule "D".	Page 5 Section 14 Executive Advisor	(See Section 5, Authority of Audit Committee Re: appointment of Executive Advisor) (1) The Executive Advisor reports to the Audit Committee through the Chair. (2) The Executive Advisor will provide reporting, research, planning, documentation and meeting logistical support to the Audit Committee.	Title changed to be consistent with titles used throughout The City for similar roles. Schedule D has been deleted and the responsibilities of the Executive Advisor included in the main body of the bylaw. Reporting and research added to Section 14(2) to reflect responsibilities of this role. Streamlined former content of Schedule D to remove unnecessary narrative with respect to

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

				employee/supervisor roles considered normal business practice. STRATEGY Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee
Page 5 Section 17 Consequential Amendments	Bylaw 44M2006, The Procedure Bylaw, as amended, is further amended as follows: (1) the following is added after subsection 2(6) as subsection 2(6.1): “(6.1) “ <i>Audit Committee</i> ” means the committee established by Bylaw 48M2012;” (2) Subsection 21(1) is deleted.		Deleted	No longer required - new Procedure Bylaw 35M2017.
Page 5 Section 18 Coming Into Force	18. This Bylaw comes into force on the day of the 2013 Organizational Meeting.	Page 6 Section 15 and 16 Repeal Coming Into Force Coming Into Force	15. Bylaw 48M2012 is hereby repealed. 16. This Bylaw comes into force on 26 October 2020.	To repeal the current Audit Committee Bylaw and to have new bylaw come into force on the day of the 2020 Organizational Meeting where appointments to Audit Committee will be made.
Page 6 Schedule A Section 1 Regarding the Purpose and Role of Audit	Regarding the Purpose and Role of Audit Committee The Audit Committee: a) reports to <i>Council</i> ;	Page 7 Schedule A Regarding the Purpose and Role of Audit Committee	1. REGARDING THE PURPOSE AND ROLE OF AUDIT COMMITTEE The Audit Committee: (a) oversees, reviews and assesses the relationships between the	(See Section 4, Mandate and Section 5, Authority of Audit Committee for sub-sections a, b, c, and f removed from Schedule A) No change

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

Committee	<p>b) is expected to be involved in a broader governance role than exclusively overseeing financial matters;</p> <p>c) may institute audits, reviews, and special studies, including the standing authority to retain special counsel or experts;</p> <p>d) oversees, reviews and assesses the relationships between the <i>Administration</i>, the <i>City Auditor</i> and <i>External Auditor</i>;</p> <p>e) assesses the performance of the <i>External Auditor</i> and the <i>City Auditor</i> and forwards the performance assessments to <i>Council</i> for information;</p> <p>f) oversees the integrity of the process of <i>The City's</i> annual financial statements;</p> <p>g) oversees the integrity of <i>The City's</i> system of internal controls, legal compliance regarding financial matters, Codes of Conduct, and other policies, as determined by the Audit Committee;</p> <p>h) oversees <i>The City's</i> process of risk identification, analysis and</p>	<p><i>Administration</i>, the <i>City Auditor</i> and <i>External Auditor</i>;</p> <p>(b) assesses the performance of the <i>External Auditor</i> and the <i>City Auditor</i> and forwards the performance assessments to <i>Council</i> for information;</p> <p>(c) assesses the performance of the Executive Advisor through the Audit Committee Chair;</p> <p>(d) oversees its governance responsibility with audit committees of <i>The City's</i> major autonomous civic entities, as determined by the Audit Committee;</p> <p>(e) develops a detailed annual work plan which is forwarded to <i>Council</i> for information;</p> <p>(f) develops an annual budget for the Audit Committee and recommends it to <i>Council</i> for approval, as part of <i>The City's</i> annual budget process;</p> <p>(g) must review its terms of reference and mandate as set out in this Bylaw and as they may impact the City Auditor Bylaw 30M2004, at least every three years and recommend any changes to <i>Council</i>; and</p> <p>(h) must perform an annual self-assessment on the performance of the Audit Committee.</p>	<p>A Personnel Sub-Committee has not been formulated for several years for the City Auditor's performance assessment. In practice, the review is completed by the Chair of Audit and presented to Audit Committee for discussion and approval.</p> <p>Moved from previous Schedule D and clarified that Audit Chair performs the performance review (not personnel sub-committee)</p> <p>Slight wording change from "coordinates its governance responsibility" to "oversees its governance responsibility" for clarity</p> <p>No change. SWG recommended that the Audit Committee discuss their strategic focus annually with a view to incorporation of their priorities into the annual work plan.</p> <p>Slight change – added the words "for approval" for clarity</p> <p>Recognizing a review of the Audit Committee Bylaw could impact the City Auditor Bylaw with respect to their inter-relationship.</p> <p>Audit Committee has been performing annual self-assessments since 2004. This is a best practice and provides an opportunity for continuous improvement by tracking performance year over year.</p> <p>Sub-section g) in current Bylaw with respect to internal controls, legal compliance, codes of conduct, etc. was deleted. The areas that Audit Committee wish to have oversight on are contained within their Mandate,</p>
------------------	---	---	---

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>management procedures to mitigate risk;</p> <p>i) coordinates its governance responsibility with audit committees of <i>The City's</i> major autonomous civic entities, as determined by the Audit Committee;</p> <p>j) oversees <i>The City's</i> Whistle Blower program, through the <i>City Auditor's</i> Office;</p> <p>k) develops a detailed annual work plan which is forwarded to <i>Council</i> for information;</p> <p>l) develops an annual budget and recommends it to <i>Council</i> as part of <i>The City's</i> annual budget process;</p> <p>m) must review its terms of reference and mandate as set out in this Bylaw at least every three years and recommend any changes to <i>Council</i>;</p> <p>n) is committed to public meetings. Items will be considered in camera (excluding the public) per section 197(2) of the <u>Municipal Government Act</u> or per the <u>Freedom of Information and Protection of Privacy Act</u>.</p>		<p>Authority of Audit Committee, and schedules to the proposed Bylaw. The Annual Workplan sets the focus for oversight each year.</p> <p>Sub-section n) in current Bylaw with respect to public meetings and in camera discussions as it is not required – closed meetings are covered by the Municipal Government Act, Section 187(2).</p> <p>STRATEGIES Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee Strategy #2 – Set priorities for the Audit Committee so that the important work is addressed first. Strategy #3 – Set aside time for strategic matters.</p>
--	---	--	--

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

Page 7 Schedule A Section 2 Regarding the City's Financial Disclosure and Accounting Practices	<p>The Audit Committee:</p> <p>a) oversees the integrity of, and reviews, the Annual Financial Statements and recommends their approval to <i>Council</i>;</p> <p>b) reviews and discusses <i>The City's</i> compliance with financial reporting procedures with <i>Administration</i>, the <i>City Auditor</i> and the <i>External Auditor</i>;</p> <p>c) engages <i>Administration</i>, the <i>City Auditor</i>, and the <i>External Auditor</i> in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results;</p> <p>d) reviews and discusses areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by <i>Administration</i> in consultation with the <i>External Auditor</i>, of the implications of those changes;</p> <p>e) maintains open lines of communication with the <i>External Auditor</i>, <i>City</i></p>	<p>Page 7 Schedule A Regarding the City's Financial Disclosure and Accounting Practices</p> <p>The Audit Committee:</p> <p>(a) reviews and oversees the integrity of the annual financial statements and recommends their approval to <i>Council</i>;</p> <p>(b) reviews and discusses <i>The City's</i> compliance with financial reporting, policies and procedures with <i>Administration</i> and the <i>External Auditor</i>;</p> <p>(c) engages <i>Administration</i> and the <i>External Auditor</i> in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results;</p> <p>(d) in consultation with the <i>Chief Financial Officer</i> and <i>External Auditor</i>, review and discuss significant new accounting standards and financial reporting developments to understand any material impact on financial results. A detailed analysis, prepared by <i>Administration</i>, on the implications of any changes, as well as the progress made in the adoption of new accounting standards, may be requested; and</p> <p>(e) maintains open lines of communication with the <i>External Auditor</i> and <i>Administration</i>.</p>	<p>No Change</p> <p>Removed the "City Auditor" as this is not a function of the City Auditor's role and the City Auditor's office is not involved in discussions re: compliance with financial reporting processes.</p> <p>Removed the "City Auditor" as this is not a function of the City Auditor's role and the City Auditor's office is not involved in these discussions.</p> <p>Rewording to emphasize the review and discussions that occur with significant new accounting and reporting standards as well as including progress made in adopting the new standards.</p> <p>The City Auditor is not directly involved in The City's financial disclosure and accounting practices.</p> <p>STRATEGY Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee</p>
--	---	---	--

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<i>Auditor, and Administration.</i>			
Page 7 Schedule A Section 3 Regarding Performance Audits or Special Studies	<p>The Audit Committee:</p> <p>a) approves performance audits, program reviews or special studies of areas identified by Audit Committee;</p> <p>b) reviews and approves that these audit and studies be conducted either by the Audit Committee or by the <i>City Auditor's Office</i>. If required, budget funds will be provided by the Audit Committee to the <i>City Auditor's Office</i>;</p> <p>c) receives and reviews the performance audit or special study reports, together with responses, and forwards such reports to <i>Council</i> for information.</p>	<p>Page 8 Schedule A</p> <p>Regarding Special Audits, Program Reviews or Special Studies</p>	<p>The Audit Committee:</p> <p>(a) oversees and approves special audits, program reviews or special studies be conducted either by the Audit Committee or by the <i>City Auditor's Office</i>. If required, budget funds will be provided by the Audit Committee to the <i>City Auditor's Office</i>; and</p> <p>(b) reviews the results of special audits, program reviews or special studies, together with responses, and forwards to <i>Council</i> for information.</p>	<p>The authority for Audit Committee to commission special audits has been relocated to Section 5, "Authority of Audit Committee".</p> <p>Reworded to use the words "special audits" to clarify Audit Committee's ability to request various types of audits (performance, operational, financial, compliance, follow-up, etc.).</p> <p>No change.</p> <p>STRATEGIES Strategy #3 – Set aside time for strategic matters Strategy #2 – Set priorities for the Audit Committee so that the important work is addressed first.</p>
Page 7 and 8 Schedule A Section 4 Regarding Internal Control	<p>The Audit Committee:</p> <p>a) oversees <i>The City's</i> internal control processes;</p> <p>b) has authority to:</p> <p>(i) review reports from <i>Administration</i> about <i>The City's</i> internal control systems, including technology, security and financial controls, and assess</p>	<p>Page 8 Schedule A</p> <p>Regarding Internal Control and Risk</p>	<p>The Audit Committee:</p> <p>(a) oversees the integrity of <i>The City's</i> internal controls;</p> <p>(b) oversees <i>The City's</i> process of risk identification, analysis and management procedures to mitigate risk; and</p> <p>(c) oversees, through the <i>City Auditor's</i></p>	<p>No change.</p> <p>Audit Committee to look at the process of risk identification rather than the process of The City's Integrated Risk Management model. The City Manager will report on risk at least twice a year and areas to be further reviewed will be included on the annual work plan per Section 5 – Authority of Audit Committee.</p> <p>No change – relocated from Section 7 of Schedule A</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>whether they are operating effectively;</p> <p>(ii) review reports from <i>Administration</i> regarding <i>The City's</i> policies and procedures to safeguard <i>The City's</i> assets, and assess whether these policies are operating effectively;</p> <p>c) has authority and responsibility to report and recommend to <i>Council</i>, any actions or decisions regarding <i>The City's</i> system of internal controls that the Audit Committee deems appropriate.</p>		Office, the operation of <i>Council</i> Policy CC025, Whistle-Blower Policy.	<p><u>STRATEGIES:</u></p> <p>Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee.</p> <p>Strategy #2 – Set priorities for the Audit Committee so that the important work is addressed first.</p> <p>Strategy #3 – Set aside time for strategic matters</p> <p>Strategy #6 – Raise the profile of the Audit Committee with Council and Administration.</p>
Page 8 Schedule A Section 5 Regarding Risk Management	<p>The Audit Committee:</p> <p>a) oversees the process of <i>The City's</i> Integrated Risk Management (IRM);</p> <p>b) receives and reviews, at least twice a year, reports from <i>Administration</i> regarding <i>The City's</i> IRM;</p> <p>c) reviews on an annual basis, the following areas of <i>The City</i>: the adequacy of insurance coverage; legal compliance; Information Technology's risk management update or as determined by the Committee.</p>		<p>See Page 2, Authority of Audit Committee, Section 5(c)</p> <p>With respect to Integrated Risk Management and corporate risk reporting.</p> <p>Condensed into Section 4, Internal Control and Risk section as above.</p>	<p>The SWG recommended that the Audit Committee's work plan reflect the areas the Committee wish to focus on annually to avoid the prescriptive approach in the current bylaw. This allows flexibility to respond to emerging risk and strategic issues.</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

Page 8 Schedule A Section 6 Regarding Administration's Compliance and Ethics	<p>The Audit Committee:</p> <p>a) monitors <i>Administration's</i> compliance with existing policies and legislation;</p> <p>b) has authority to:</p> <p>(i) review reports from <i>Administration</i> and from the <i>City Auditor</i> as to the adequacy and effectiveness of corporate policies such as legal matters, regulations, ethical principles, code of conduct and conflict of interest;</p> <p>(ii) review reports from <i>Administration</i> respecting <i>The City's</i> processes and controls that prevent and detect fraud and misconduct;</p> <p>c) has authority and responsibility to report and recommend to <i>Council</i>, any actions or decisions regarding the <i>Administration's</i> ethics and compliance with policies and legislation that the Audit Committee deems appropriate.</p>		Deleted	<p>Audit Committee's Annual Work Plan will address areas of focus each year. Under the new section "Authority of Audit Committee" Section 5(4) states that the Audit Committee is authorized to receive reports from Administration and civic entities in support of fulfilling the Audit Committee work plan and to recommend to Council any actions deemed appropriate.</p> <p>Audit Committee Work Plan allows the flexibility to include reporting on corporate policies, legal matters, regulations, ethical principles, code of conduct and conflict of interest and other areas of interest. Linking Audit Committee's focus annually to the work plan moves away from a more prescriptive approach used in the current bylaw and has more flexibility. Effective governance, risk management and compliance monitoring is indicated within the Audit Committee Mandate.</p> <p>The City Auditor and External Auditor also provide monitoring of these areas.</p> <p>STRATEGIES Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee. Strategy#2 – Set priorities for the Audit Committee so that the important work is addressed first. Strategy #4 – Ensure that meeting agendas address the Audit Committee's priorities.</p>
Page 8 Schedule A	The Audit Committee:	Page 8 Schedule A	See Page 8 Schedule A	

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

Section 7 Regarding the Whistle Blower Program	a) oversees, through the <i>City Auditor's Office</i> , the operation of Council Policy CC025, Whistle-Blower Policy; b) receives and approves an annual report on the Whistle Blower Program, and forwards to <i>Council</i> for information.	Section 4 Regarding Internal Control and Risk And Page 10 Schedule C Section 1(e)	Section 4 Regarding Internal Control and Risk , regarding the operation of Council Policy CC025. See Page 10 Schedule C Section 1(e) regarding Whistle-Blower reporting.	
Page 9 Schedule A Section 8 Regarding the Expertise of Elector Members	The elector members of Audit Committee must be financially literate. At least one of the elector members must be a financial expert.		See Page 3 Section 6(3) and (4) Composition	
Page 9 Schedule A Section 9 Regarding the Continuing Education of Audit Committee	Members of the Audit Committee shall have the opportunity to obtain education, either from within <i>The City</i> or from outside educational programs, to ensure their knowledge is sufficient to fulfill their responsibilities as Audit Committee members. Funding to support appropriate professional development for the Audit Committee members may be included in the Audit Committee's budget.		See Page 4 Section 8 Continuing Education	
Page 10 Schedule B Regarding the External Auditor	REGARDING THE EXTERNAL AUDITOR 1. The Audit Committee:	Page 9 Schedule B Regarding the External	1. REGARDING THE EXTERNAL AUDITOR The Audit Committee:	See Section 5, Authority of Audit Committee, Re: Appointment of External Auditor and Pre-approval of audit services

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>a) recommends the appointment of the <i>External Auditor</i> to <i>Council</i>;</p> <p>b) pre-approves all audit and non-audit services performed by the <i>External Auditor</i>. However, the Audit Committee Chair can pre-approve additional audit or non-audit services, performed by the <i>External Auditor</i>, up to \$25,000 total annually. Any approvals by the Chair will be reported to the Audit Committee as part of the Audit Committee Quarterly Status Report;</p> <p>(c) requires the <i>External Auditor</i>, as an expert in accounting and financial reporting, to express independent judgment about the appropriateness and acceptability of <i>The City's</i> financial statements, in accordance with professional standards;</p> <p>(d) prior to the commencement of the annual external</p>	Auditor	<p>(a) prior to the commencement of the annual external financial audit, reviews the audit plan and estimated audit fees with the <i>External Auditor</i> and discusses the timing and extent of audit procedures, materiality, significant audit risks and areas of audit focus and overall audit strategy. The audit plan is forwarded to <i>Council</i> for information;</p> <p>(b) in conjunction with <i>Administration's</i> presentation of the annual financial statements, receives and reviews the <i>External Auditor's</i> year end audit results report. This report is to be forwarded to <i>Council</i> for information;</p> <p>(c) requires the <i>External Auditor</i> to express an opinion on <i>The City's</i> financial statements, in accordance with professional standards;</p> <p>(d) receives and reviews the <i>External Auditor's</i> management letter(s), and reviews <i>Administration</i> responses, and forwards, either in full or in summary, to <i>Council</i> for information. Through query, confirm that any recommendations made by the <i>External Auditor</i> are addressed by <i>Administration</i> in a timely manner;</p> <p>(e) must <i>meet</i> with the <i>External Auditor</i>, in the absence of <i>Administration</i>, at least quarterly;</p> <p>(f) annually assesses the performance of the <i>External</i></p>	<p>This provides clarity on the details that Audit Committee look for in the external auditor's service plan and gives assurance with respect to the strategy to accomplish the audit.</p> <p>Statement revised to “audit results report” versus “audit report” to give clarity on report expectations from the external auditor.</p> <p>Streamlined wording.</p> <p>Added a statement requiring confirmation that recommendations from the external auditor are being followed up and addressed by Administration within an appropriate time.</p> <p>No Change.</p> <p>Slight change – adding clarity that the performance assessment is forwarded to Council for information.</p>
--	--	----------------	---	---

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>financial audit, review the financial audit plan with the <i>External Auditor</i>;</p> <p>(e) in conjunction with Administration's presentation of the annual financial statements, receive and review the <i>External Auditor's</i> annual audit report. This report is to be forwarded to <i>Council</i> for information;</p> <p>(f) receives and reviews the <i>External Auditor's</i> Management Letter(s), together with any <i>Administration</i> responses, and forward, either in full or in summary, to <i>Council</i> for information;</p> <p>(g) must meet with the <i>External Auditor</i>, in the absence of <i>Administration</i>, at least quarterly;</p> <p>(h) annually assesses the performance of the <i>External Auditor</i>, following the presentation of the <i>External Auditor's</i> current Management Letter;</p>	<p><i>Auditor</i>, following the presentation of the <i>External Auditor's</i> current management letter and forwards this assessment to <i>Council</i> for information;</p> <p>(g) must meet at least annually with <i>Administration</i>, in the absence of the <i>External Auditor</i>, at the time of the <i>External Auditor</i> performance assessment; and</p> <p>(h) receives and reviews the <i>External Auditor's</i> annual independence letter. Through query, confirm the process by which the <i>External Auditor</i> maintains their independence and objectivity.</p> <p>2. Unless otherwise determined by <i>Council</i> the <i>External Auditor</i> contract is awarded on a five-year basis, subject to satisfactory annual assessments. The contract may be extended annually beyond five years, based on Audit Committee's recommendation for <i>Council's</i> approval.</p>	<p>No Change.</p> <p>Added statement to provide assurance on external auditor independence. Consideration may be given to adding the independence letter as a separate item on Audit Committee's annual work plan.</p> <p>No Change.</p> <p>STRATEGIES: Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee. Strategy #6 – Raise the profile of the Audit Committee with Council and Administration.</p>
--	---	---	--

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>(i) must meet at least annually with <i>Administration</i>, in the absence of the <i>External Auditor</i>, at the time of the <i>External Auditor</i> performance assessment.</p> <p>2. Unless otherwise determined by Council the <i>External Auditor</i> contract is awarded on a five-year basis, subject to satisfactory annual assessments. The contract may be extended annually beyond five years, based on Audit Committee's recommendation for <i>Council's</i> approval.</p>			
Page 11 Schedule C	REGARDING THE CITY AUDITOR 1. The Audit Committee: <ul style="list-style-type: none"> (a) recommends to <i>Council</i> the appointment of an individual to the designated officer position of <i>City Auditor</i>, as established in Bylaw 30M2004; (b) in accordance with Bylaw 30M2004, oversees and ensures the accountability of the <i>City Auditor</i> on behalf of <i>Council</i>; 	Page 10 Schedule C	Regarding the City Auditor 1. REGARDING THE CITY AUDITOR The Audit Committee: <ul style="list-style-type: none"> (a) in accordance with Bylaw 30M2004, oversees and ensures the authority, accountability, independence and objectivity of the <i>City Auditor</i> on behalf of <i>Council</i>; (b) reviews the City Auditor's Office audit plan and budget with the <i>City Auditor</i> and discusses the scheduling, resourcing, risk areas, coverage and overall audit strategy; (c) ensures that <i>City Auditor's</i> Office undergoes an independent 	<p>Similar to the external auditor, Audit Committee should also ensure that the City Auditor function remains independent from Administration and conducts their work based on objective support/evidence.</p> <p>Approval of the City Auditor's Office annual audit plan is contained under Section 5, Authorization of Audit Committee. Review of the audit plan and budget provides assurance the resources are available to accomplish the plan.</p> <p>An external confirmation of conformation to stated standards should occur at least every five years</p>

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP
--	------------------------------------	---

	<p>(c) ensures that <i>City Auditor's</i> Office undergoes a Quality Assessment review, as prescribed by the Institute of Internal Auditors (IIA) at least every five years;</p> <p>(d) assesses annually, the performance of the <i>City Auditor</i>, by way of a formal review process through the Audit Committee Chair and Personnel Sub-Committee and forwards this assessment to <i>Council</i> for information;</p> <p>(e) reviews and approves the <i>City Auditor's</i> Office annual work plan and forwards to Council for information; the Audit Committee or <i>Council</i> may not remove items from the <i>City Auditor's</i> work plan but may direct items be added to the plan;</p> <p>(f) reviews and forwards to <i>Council</i> for information, the <i>City Auditor's</i> Office quarterly and annual status reports;</p> <p>(g) receives directly from the <i>City Auditor</i> any individual audit report and forwards these to <i>Council</i> for information;</p>		<p>assessment review and confirms professional standards at least every five years;</p> <p>(d) assesses annually, the performance of the <i>City Auditor</i>, by way of a formal review process through the Audit Committee Chair and forwards this performance assessment to <i>Council</i> for information;</p> <p>(e) reviews and forwards to <i>Council</i> for information, the <i>City Auditor's</i> Office quarterly and annual status reports which includes activity of the Whistle-blower Program;</p> <p>(f) receives directly from the <i>City Auditor</i> any individual audit report, including as applicable, <i>Administration's</i> response and corrective action to be taken to specific audit recommendations, and forwards these to <i>Council</i> for information;</p> <p>(g) receives directly from the <i>City Auditor</i>, at least annually, a report providing the status of <i>Administration</i> action on the recommendations contained in previous audit reports; this report will be forwarded to <i>Council</i> for information; and</p> <p>(h) ensures that the Audit Committee work plan includes regular closed meeting discussions between Audit Committee and the <i>City Auditor</i> no less than quarterly.</p>	<p>Removed the words “and Personnel Sub-Committee” as the performance review is, in practice, undertaken by the Chair of Audit Committee and shared with Audit Committee in closed meeting. Audit Committee may establish a sub-committee or working group for this purpose if required.</p> <p>Details on the Whistle-Blower Program activity are included in quarterly and annual status reports.</p> <p>Revised to include Administration's responses and corrective actions to be taken. In practice, these responses and corrective actions have normally been contained within the audit reports from the City Auditor.</p> <p>No Change.</p> <p>Strengthens the City Auditor's opportunity to have confidential discussions with Audit Committee at least four times per year. Currently this is offered through the annual work plan at every Audit Committee meeting (nine meetings in 2020).</p>
--	---	--	---	--

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>(h) receives directly from the <i>City Auditor</i>, at least annually, a report providing the status of <i>Administration</i> action on the recommendations contained in previous audit reports; this report will be forwarded to <i>Council</i> for information;</p> <p>(i) ensures that formal procedures exist to allow confidential discussions between Audit Committee and the <i>City Auditor</i>;</p> <p>(j) ensures that the combined work of the <i>City Auditor</i> and the <i>External Auditor</i> provides an appropriate level of audit coverage and is effectively coordinated;</p> <p>(k) meets as required with the <i>City Auditor</i>, in the absence of <i>Administration</i>;</p> <p>(l) reviews and recommends <i>Council</i> approval of the <i>City Auditor's</i> Office budget, annually or as required by <i>Council</i> budget guidelines;</p> <p>(m) reviews and approves the <i>City Auditor's</i> personal expense reports, or other expenditures as</p>			<p>See new Schedule A of City Auditor Bylaw. Section 3, Assurance Services (b) Re: level of audit coverage effectively coordinated.</p> <p>STRATEGIES Strategy #1 – Redefine the mandate and modernize the role of the Audit Committee. Strategy #6 – Raise the profile of the Audit Committee with Council and Administration.</p>
--	--	--	--	--

CURRENT STATE – AUDIT COMMITTEE BYLAW 48M2012	PROPOSED NEW AUDIT COMMITTEE BYLAW	COMMENTS / RATIONALE / STRATEGIES
		SWG = STRATEGIC WORKING GROUP BRWG = BYLAW REVIEW WORKING GROUP

	<p>required, through the Audit Committee Chair.</p> <p>2. The <i>City Auditor</i>:</p> <p>(a) Must formally present the annual audit work plan to <i>Council</i> for information;</p> <p>(b) Must submit the annual status report to <i>Council</i> for information after review by the Audit Committee.</p>			



Prepared by Mistri Consulting
3420-34 Ave SW
Calgary, AB
T 587.999.1520

Summary of Findings

OUTCOMES OF THE AUDIT COMMITTEE 2019 STRATEGIC REVIEW

Background

In the City of Calgary's Audit Committee orientation package, a document titled Audit Committee Purpose and Role introduces the purpose of the Audit Committee by stating:

"The diverse role of the Audit Committee at the City of Calgary reflects a wider trend in North America of Audit Committees participating in more than just financial governance matters, playing an increasingly important role in oversight, risk management, and corporate governance."

Strategies for 2020

On February 1, 2019, the City of Calgary Audit Committee held a one-day workshop at Ralph Klein Park to discuss how it might fulfill a more strategic role. At a follow-up meeting on February 28, the Audit Committee reviewed the results and decided to pursue seven strategies in 2019. They were to:

1. Redefine the mandate and modernize the role of the Audit Committee
2. Set priorities for the Audit Committee so that the important work is addressed first
3. Set aside time for strategic matters
4. Ensure that meeting agendas address the Audit Committee's priorities
5. Review the membership terms of Audit Committee members
6. Raise the profile of the Audit Committee with Council and Administration
7. Test City strategies by asking good questions and making strategic recommendations

On April 23, 2019, the Audit Committee established a Strategic Working Group (SWG) to determine what specific changes are required to execute these strategies. In fall of 2019, it held four workshops and completed the following tasks:

- Recommended revisions to the Audit Committee's mandate emphasizing a more strategic role
- Recommended changes to the working process to focus more on strategic issues
- Reviewed how it interacts with Council, Priorities and Finance Committee (PFC) and Administration
- Created a 2020 work plan that
 - Places more focus on topics of strategic importance to the City of Calgary
 - Streamlines and reduces routine reporting
 - Requests more dialogue with the City Manager and Chief Financial Officer
 - Allows additional time to identify and discuss strategic issues



The Audit Committee also established a Bylaw Review Working Group (BRWG) to propose amendments to the Audit Committee Bylaw (48M2012) to support the recommendations of the SWG. Pertinent changes to the Committee's mandate and to its working practices and process were sent to the BRWG to include in the proposed amendments to the Audit Committee Bylaw.

Timeline of 2019 work

Date	Meeting / Outcomes
Feb 1, 2019	Full-day Strategic Workshop Conducted preliminary workshop with Audit Committee and members of Administration to discuss its potential for greater strategic impact
Feb 28, 2019	Audit Committee Breakfast Session Finalize seven strategies for 2020
April 23, 2019	Audit Committee Meeting Establish strategic and bylaw working groups.
July 23, 2019	Audit Committee Breakfast Session Set dates and review process for Strategic Working Group workshops.
September 17, 2019	Workshop 1: Mandate A summary of results is presented below.
October 10, 2019	Workshop 2: Process A summary of results is presented below.
October 30, 2019	Workshop 3: Process (continued), Roles & Responsibilities A summary of results is presented below.
December 2, 2019	Workshop 4: Strategic Topics for 2020 A summary of results is presented below.

Workshop 1: Changes to the Mandate

At the first workshop, members of the SWG discussed how the Audit Committee can achieve greater strategic impact on behalf of the City of Calgary.

Recommendations: At the conclusion of Workshop 1, the SWG made the following recommendations for amendments to the Bylaw:

1. Revise Section 1 to emphasize the Audit Committee's role in supporting better decision-making by providing independent expertise and advice concerning matters of finance and risk.
2. Revise Section 2 to emphasize that the Audit Committee shall preview any matter that's a material or significant financial or risk related impact to the City

3. Revise Section 2 to ensure that the Audit Committee receives proactive briefings from Priorities and Finance Committee (PFC) and other Standing Policy Committees so that the process of identifying, analyzing and managing financial risk is maintained
4. Revise Section 5c to reflect that the Audit Committee will define what areas shall be reviewed on an annual basis rather than accept the prescriptive direction of the current Bylaw.

Recommendations from Workshop 1 address strategies 1 and 2 for modernizing the role of the Audit Committee and setting priorities around its work.

Provide timely and impartial advice: Members felt major decisions with significant financial implications should be reviewed by the Audit Committee so it can offer non-political observations and advice on subjects of finance and risk. They wanted the Audit Committee to have an opportunity to review major issues before other decisions constrain the City.

Members discussed the workload and time required to fulfill recommendation 2 and identified concerns associated with the feasibility of this recommendation. In Workshop 4, the SWG discussed a way to prioritize issues based on risk management reporting from the City Manager. The BRWG, with the advice of the City Auditor and the City's legal team, is now working to incorporate those recommendations into upcoming bylaw revisions.

Identifying major issues proactively: Members also wanted to see the Audit Committee proactively identify and address major issues as a part of their role in sound, impartial governance. They believed this impartial advice should be publicly available and on the record regardless of City Council's final decision.

Advise “before, during, not just after”: Finally, members felt it was important for the Audit Committee to shift from a traditionally forensic role to one that includes impartial input before and during important decisions about finance and risk. Their desire is for the Audit Committee to relieve City Council of the need to debate the details of the technical aspects of a proposed project, allowing the Council to debate the project's merits.

Members discussed the workload and time required to fulfill recommendation 2 and identified concerns associated with the feasibility of this recommendation. The BRWG, with the advice of the City Auditor and the City's legal team, is now working to incorporate the recommendations into upcoming proposed bylaw amendments.

Workshops 2 & 3: Change to Working Process

At the second workshop, members of the SWG discussed how the Audit Committee might change its working process and practices to achieve greater strategic impact.

Recommendations: At the conclusion of Workshops 2 and 3, the SWG made the following recommendations for proposed amendments to the Bylaw:

1. The Audit Committee's annual work plan needs to focus on topics of strategic risk
2. The City Manager should present regularly on issues of strategic risk
3. Streamline the current report process to allow more time for strategic topics
4. Review the number of Audit Committee members, quorum and member qualifications

Recommendations from Workshop 2 and 3 address strategies 3, 4 and 5 for setting aside time for strategic matters, ensuring meeting agendas address Audit Committee priorities and reviewing committee membership and quorum.

Focus the work plan on strategic topics: The SWG discussed prioritizing subjects for the work plan by reviewing and selecting high risk issues identified by Administration. They recommended the Audit Committee hold regular discussions about the emergence of risk and collaborate with the City Auditor to ensure that the work plan places a priority on issues of strategic risk. The SWG also recommended the Audit Committee's work plan follow the calendar for Council's annual priority and budget-setting process and that the Audit Committee have an opportunity review the City's budget while in development.

Hold regular presentations and briefings from the Chief Financial Officer and the City Manager: The SWG recommended that the Audit Committee receive briefings on budget development and risk management on a semi-annual basis and that these briefings be used to identify the emergence of strategic risks. They also recommended the annual work plan align its major activities with Council's priority setting and budget process

Streamline the current report process: Given the interest in focusing more on bigger, broader issues, the SWG recommended streamlining the number of reports received by the Audit Committee so it can spend more time on strategic topics. The SWG recommends the Chair continues to request that Administration provide concise presentations and reports. There was some debate about the value of creating a consent agenda.

Committee membership, quorum and qualifications: The SWG recommended the Audit Committee increase the number of citizen members on the Audit Committee so that it could tackle a larger workload and that the terms of City Councillors be extended from one to two years to provide greater continuity. It also suggested reviewing the desired competencies for citizen members and recruiting according to desired skills including areas of non-financial expertise.

Workshop 4: Development of the 2020 Work Plan

The original intention of this workshop was to identify strategic topics that the Members of the SWG thought should be discussed. The agenda was altered to focus on the development of the 2020 work plan to help make the discussion more concrete and address concerns about balancing the committee's workload against the available meeting time.

Recommendations: During Workshop 4, the SWG followed some key practices that should be considered recommendations for the development of future work plans

1. Develop the work plan in collaboration with the City Auditor and Administration
2. Use presentations from the City Manager and Chief Financial Officer (CFO) to identify emerging strategic risk
3. Allow time to address strategic issues as they arise at Audit Committee or when requested by Council
4. Examine the value of all reporting in light of the emergence of strategic issues

Recommendations from Workshop 4 address strategies 3, 4, 6 and 7 for setting aside time for strategic matters, ensuring meeting agendas address Audit Committee priorities, raising the profile of the Audit Committee with Council and Administration and testing City strategies with good questions.

Collaboration: At Workshop 4, the City Auditor and other members of Administration worked with the SWG to develop a draft of the work plan. Everyone discussed and negotiated competing priorities in good faith and the workshop resulted in the 2020 work plan approved by the Audit Committee at the January 24, 2020 meeting.

Presentations from the City Manager and CFO: The SWG agreed the best way to identify and address issues of strategic risk was to receive regular presentations from the City Manager and CFO and to use this information to identify issues for further scrutiny.

Time for strategic issues: Creating the work plan in a collaborative setting allowed the SWG to have some frank discussion about use of its time, to prioritize strategic issues and to leave time in its meeting schedule for emerging issues of strategic risk.

Reporting: Creating the work plan in a collaborative setting also allowed the SWG to discuss which reports and presentation are of the greatest value to the Audit Committee.

Other points of discussion

During this process, the Audit Committee and the SWG discussed other topics, some at length.

Opportunities for less formal discussion: Feedback about the February strategic workshop was that it was an important opportunity for Audit Committee members to discuss the role of Committee as a strategic resource to the City of Calgary. There was a consensus among members that it should continue holding an annual strategic meeting to discuss its role, work processes, the annual work plan and other strategic topics as they arise.

Scope of responsibilities and authority: There was debate about whether all major projects involving finance and risk should be automatically reviewed by the Audit Committee. However, there were concerns this would introduce an unrealistic amount of work for Audit Committee and Administration and that this approach would detrimentally affect the timelines for major projects.

Instead, the SWG ultimately recommended a risk-based approach by which major projects and ongoing operations are monitored for risk and that a review be conducted when a heightened level of risk deems it necessary. Discussion of how this is to be formally implemented is still under discussion by the Bylaw Review Working Group.

Workload for citizen members and Administration: During the development of the work plan, the SWG and members of Administration were keenly aware of the potential workload introduced by this more strategic approach. There was ongoing discussion during Workshops 3 and 4 about whether what was being proposed is realistic. A revised work plan was approved on January 24, 2020, but the Audit Committee would be well-advised to review its workload from time to time over the next year to determine whether the work plan is sustainable for all those involved.

Membership and quorum: There's an outstanding discussion about numbers of citizen members on the Audit Committee. Concerns about the workload and the ability to achieve a quorum lead the SWG to discuss adding citizen members on the Audit Committee and to extend the terms of Councillors. Administration advised the SWG that an increase in citizen members may introduce governance issues. A recommendation concerning citizen membership and quorum was left for further discussion by the BRWG.

Remaining work

At this time, the BRWG is meeting to discuss what specific changes to the Bylaw are required to meet the recommendations of the Strategic Working Group. Members of Administration, the City Auditor and the Executive Assistant to the Audit Committee have also brought forward recommended changes of varying degrees of detail that are also under review by the BRWG. Recommended changes will be submitted to the City Solicitor assigned to the project to either amend or draft a new Bylaw for consideration by the Audit Committee and by City Council.

Professional and Administration Support

Throughout this process, the Audit Committee and the SWG were supported by the facilitation services of my firm, Mistri Consulting. I am recognized by the International Association of Facilitators (IAF) as a Certified Professional Facilitator (CPF) and have fifteen years' experience in facilitation and public engagement. I conduct meetings, workshops and consultations for a range of non-profit, government and for-profit organizations.

During this process, members of City Administration and external audit professionals engaged by the City also provided invaluable support to the Audit Committee. I would like to recognize Corrie Smillie, Executive Assistant to the Committee for her hard work and thoughtful insight. I'd also like to recognize the following members of Administration and the external auditors from Deloitte who offered their willing participation and frank advice through the workshop process.

- Glenda Cole, City Manager
- Carla Male, Chief Financial Officer
- Trevor Nakka and Harman Gill, Deloitte LLP
- Thao Nguyen, Director of Finance, City Treasurer
- Kathy Palmer, City Auditor
- Chris Stewart, Manager, Corporate Initiatives
- Matthias Tita, Director, Calgary Growth Strategies and Chair, Calgary Planning Commission
- Greg Wiebe, Manager, Corporate Financial Reporting

I'd also like to acknowledge the following members of Administration who participated in the first strategic workshop in February 2019.

- Jan Bradley, Chief Information Technology Officer
- Al Bleau, Manager, Whistle-Blower Program
- Jeff Fielding, City Manager
- Kelly Gardner, Leader, Performance Measurement, Benchmarking and Risk
- Pam Lewis, Deputy City Auditor
- Jill Mawer and Michael Mooney, Ward 8
- Trevor Nakka and Harman Gill, Deloitte LLP
- Evelyn Ott, IT Audit Manager
- Andrew Sedor, Business Development Coordinator, Transportation Strategy

OFFICE CONSOLIDATION

BYLAW NUMBER 48M2012

**BEING A BYLAW OF THE CITY OF CALGARY
TO CONTINUE THE AUDIT COMMITTEE**

(Amended by 48M2013, 39M2016, 26M2017)

WHEREAS Council has approved AC2011-72 and the Audit Committee Terms of Reference contained therein, and considers it necessary to pass a bylaw continuing the Audit Committee for The City of Calgary;

NOW, THEREFORE, THE COUNCIL OF THE CITY OF CALGARY ENACTS AS FOLLOWS:

SHORT TITLE

1. This Bylaw may be cited as the "Audit Committee Bylaw".

DEFINITIONS

2. (1) In this Bylaw,

"*Administration*" means the administration of *The City*;

"*Chief Financial Officer*" means the member of *Administration* holding the position of Chief Financial Officer;

"*City Auditor*" means the individual appointed by *Council* to the designated officer position of City Auditor pursuant to Bylaw 30M2004;

"*City Manager*" means the individual appointed by *Council* as its chief administrative officer pursuant to Bylaw 8M2001;

"*Council*" means the municipal council of *The City*;

"*External Auditor*" means the person or firm appointed by *Council* to be *The City's* external auditor;

"*Organizational Meeting*" means the annual organization meeting of Council pursuant to section 192(1) of the *Municipal Government Act*, R.S.A. 2000, c. M-26;

"*The City*" means the municipal corporation of The City of Calgary.

- (2) All schedules attached to this Bylaw form part of the Bylaw.

- (3) Where this Bylaw refers to any statute, regulation or bylaw, the reference is to the statute, regulation or bylaw as amended, whether amended before or after the commencement of this Bylaw, and includes reference to any statute, regulation or bylaw that may be substituted in its place.

CONTINUATION OF AUDIT COMMITTEE

3. The Audit Committee established by resolution of *Council* on 1979 November 19 is hereby continued.

MANDATE OF AUDIT COMMITTEE

4. (1) The Audit Committee is responsible for the following:
- (a) overseeing the integrity of *The City's* annual financial statements;
(39M2016, 2016 October 24)
 - (b) recommending the selection of the *External Auditor*;
 - (c) recommending the selection of the *City Auditor*;
 - (d) overseeing the performance of the *External Auditor* and the *City Auditor*;
 - (e) overseeing, reviewing and assessing the relationship between the *Administration*, the *External Auditor* and the *City Auditor*;
 - (f) overseeing the process of *The City's* Integrated Risk Management System;
 - (g) overseeing *The City's* compliance with laws, regulations and internal policies including disclosure and internal financial controls, legal compliance and codes of conduct;
(39M2016, 2016 October 24)
 - (h) overseeing, through the *City Auditor*, the Whistleblower Program;
 - (i) overseeing its governance responsibility with audit committees of *The City's* major autonomous civic entities;
(39M2016, 2016 October 24)
 - (j) conducting special reviews as recommended by the Audit Committee or *Council*.
- (2) The Terms of Reference for the Audit Committee are more fully set out in Schedule "A".
- (3) The Audit Committee reports to *Council*.

COMPOSITION

5. The Audit Committee is composed of the following:

- (a) four members of *Council* and
- (b) three electors

to be appointed at the *Organizational Meeting*.

TERM OF APPOINTMENT

6. (1) Members of *Council* are appointed for one-year terms, expiring on the day of the *Organizational Meeting*.
- (2) Elector members are appointed for two-year terms, expiring on the day of the *Organizational Meeting* in the year of the expiry of the member's term.
- (3) The term of an elector member who was appointed prior to the coming into force of this Bylaw continues until it expires in accordance with the *Council* resolution appointing that elector member.
- (4) Elector members may serve a maximum of six consecutive years.
(26M2017, 2017 May 09)
- (5) Despite subsection (2), an elector member may serve until his or her successor is appointed. The service of an elector member beyond the appointed term shall not count toward the limit on the length of service as set out in subsection (4) if the additional service is one year or less.
(26M2017, 2017 May 09)
- (6) When an appointment is made to fill an elector member vacancy pursuant to section 7:
- (a) If the balance of the term to be served is one year or less, that service shall not count toward the limit on the length of service set out in subsection (4); and
 - (b) If the balance of the term to be served is more than one year, that service shall count toward the limit on the length of service set out in subsection (4).
(26M2017, 2017 May 09)
- (7) Despite subsection (4), an elector member may serve more than six consecutive years if authorized by a two-thirds vote of *Council*.
(26M2017, 2017 May 09)

VACANCIES

7. Vacancies on the Audit Committee caused by retirement or resignation of a member may be filled by resolution of *Council* for the balance of that member's term. The Audit Committee may continue to operate and conduct business until vacancies are filled provided that the quorum requirement is met.

MEETINGS

8. The Audit Committee must meet not less than six times per year.
(39M2016, 2016 October 24)

QUORUM

9. The quorum of the Audit Committee is four members, comprised of two elector members and two members of *Council*.
(39M2016, 2016 October 24)

APPOINTMENT OF CHAIR AND VICE-CHAIR

10. (1) At the first meeting of the Audit Committee following the *Organizational Meeting*, the Audit Committee must appoint a Chair and Vice-Chair.
- (2) The Chair and Vice-Chair must be members of *Council*.
- (3) The Chair has the responsibility and authority to set the agenda for Audit Committee meetings.

ATTENDANCE AT MEETINGS

11. (1) All members of *Council* may attend Audit Committee meetings but only members of the Audit Committee are entitled to vote.
- (2) The Mayor is a member *ex officio* of the Audit Committee and is entitled to take part in discussion and debate and to vote.
- (3) The following individuals, or their designates, must attend all Audit Committee meetings:
- (a) *City Manager or Chief Financial Officer*,
- (b) *City Auditor*, and
- (c) *Executive Assistant* if so appointed.
(48M2013, 2013 November 18)
- (4) The *External Auditor* must attend all Audit Committee meetings.

HONORARIUM

12. DELETED BY 39M2016, 2016 OCTOBER 24.

SUB-COMMITTEES

13. The Audit Committee is authorized to establish sub-committees as required.

EXTERNAL AUDITOR

14. (1) The Audit Committee must recommend to *Council* the appointment of the *External Auditor* as required from time to time.
- (2) The functions of the *External Auditor* are more fully set out in Schedule "B".

CITY AUDITOR

15. (1) The Audit Committee must recommend to *Council* the appointment of an individual to the designated officer position of *City Auditor* as established in Bylaw 30M2004 as required from time to time.
- (2) The functions of the *City Auditor* and the relationship of the *City Auditor* to Audit Committee are more fully set out in Schedule "C".

Executive Assistant

16. (1) The Audit Committee may appoint an Executive Assistant.
- (2) The functions of the Executive Assistant are more fully set out in Schedule "D".
(48M2013, 2013 November 18)

CONSEQUENTIAL AMENDMENTS

17. Bylaw 44M2006, The Procedure Bylaw, as amended, is further amended as follows:
- (1) the following is added after subsection 2(6) as subsection 2(6.1):
“(6.1) “*Audit Committee*” means the committee established by Bylaw 48M2012;”
- (2) Subsection 21(1) is deleted.

COMING INTO FORCE

18. This Bylaw comes into force on the day of the 2013 *Organizational Meeting*.

(Sgd) N. Nenshi
MAYOR

(Sgd) B. Hilford
ACTING CITY CLERK

SCHEDULE “A”

AUDIT COMMITTEE TERMS OF REFERENCE

1. REGARDING THE PURPOSE AND ROLE OF AUDIT COMMITTEE

The Audit Committee:

- a) reports to *Council*;
- b) is expected to be involved in a broader governance role than exclusively overseeing financial matters;
- c) may institute audits, reviews, and special studies, including the standing authority to retain special counsel or experts;
- d) oversees, reviews and assesses the relationships between the *Administration*, the *City Auditor* and *External Auditor*;
- e) assesses the performance of the *External Auditor* and the *City Auditor* and forwards the performance assessments to *Council* for information;
- f) oversees the integrity of *The City's* annual financial statements;
(39M2016, 2016 October 24)
- g) oversees the integrity of *The City's* system of internal controls, legal and regulatory compliance regarding financial matters, Codes of Conduct, and other policies, as determined by the Audit Committee;
(39M2016, 2016 October 24)
- h) oversees *The City's* process of risk identification, analysis and management procedures to mitigate risk;
- i) oversees its governance responsibility with audit committees of *The City's* major autonomous civic entities, as determined by the Audit Committee;
(39M2016, 2016 October 24)
- j) oversees *The City's* Whistle Blower program, through the *City Auditor's* Office;
- k) develops a detailed annual work plan which is forwarded to *Council* for information;
- l) develops an annual budget and recommends it to *Council* as part of *The City's* annual budget process;
- m) must review its terms of reference and mandate as set out in this Bylaw at least every three years and recommend any changes to *Council*;
- n) is committed to public meetings. Items will be considered in camera (excluding the public) per section 197(2) of the *Municipal Government Act* or per the *Freedom of Information and Protection of Privacy Act*.

2. REGARDING THE CITY'S FINANCIAL DISCLOSURE AND ACCOUNTING PRACTICES

The Audit Committee:

- a) oversees the integrity of, and reviews, the Annual Financial Statements and recommends their approval to *Council*;
- b) reviews and discusses *The City's* compliance with financial reporting, policies and procedures with *Administration*, the *City Auditor* and the *External Auditor*,
(39M2016, 2016 October 24)
- c) engages *Administration*, the *City Auditor*, and the *External Auditor* in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results;
- d) reviews and discusses areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by *Administration* in consultation with the *External Auditor*, of the implications of those changes;
- e) maintains open lines of communication with the *External Auditor*, *City Auditor*, and *Administration*.

3. REGARDING PERFORMANCE AUDITS OR SPECIAL STUDIES

The Audit Committee:

- a) approves performance audits, program reviews or special studies of areas identified by Audit Committee;
- b) reviews and approves that these audit and studies be conducted either by the Audit Committee or by the *City Auditor's* Office. If required, budget funds will be provided by the Audit Committee to the *City Auditor's* Office;
- c) receives and reviews the performance audit or special study reports, together with responses, and forwards such reports to *Council* for information.

4. REGARDING INTERNAL CONTROL

The Audit Committee:

- a) oversees *The City's* internal control processes;
- b) has authority to:
 - (i) review reports from *Administration* about *The City's* internal control systems, including technology, security and financial controls, and assess whether they are operating effectively;

- (ii) review reports from *Administration* regarding *The City's* policies and procedures to safeguard *The City's* assets, and assess whether these policies are operating effectively;
- c) has authority and responsibility to report and recommend to *Council*, any actions or decisions regarding *The City's* system of internal controls that the Audit Committee deems appropriate.

5. REGARDING RISK MANAGEMENT

The Audit Committee:

- a) oversees the process of *The City's* Integrated Risk Management (IRM);
- b) receives and reviews, at least twice a year, reports from *Administration* regarding *The City's* IRM;
- c) reviews on an annual basis, the following areas of *The City*: the adequacy of insurance coverage; legal compliance; Information Technology's risk management update or as determined by the Audit Committee.

(39M2016, 2016 October 24)

6. REGARDING ADMINISTRATION'S COMPLIANCE AND ETHICS:

The Audit Committee:

- a) monitors *Administration's* compliance with existing policies and legislation;
- b) has authority to:
 - (i) review reports from *Administration* and from the *City Auditor* as to the adequacy and effectiveness of corporate policies such as legal matters, regulations, ethical principles, code of conduct and conflict of interest;
 - (ii) review reports from *Administration* respecting *The City's* processes and controls that prevent and detect fraud and misconduct;
- c) has authority and responsibility to report and recommend to *Council*, any actions or decisions regarding the *Administration's* ethics and compliance with policies and legislation that the Audit Committee deems appropriate.

7. REGARDING THE WHISTLE BLOWER PROGRAM

The Audit Committee:

- a) oversees, through the *City Auditor's* Office, the operation of Council Policy CC025, Whistle-Blower Policy;
- b) receives for information an annual audit report on the Whistle Blower Program, and forwards to *Council* for information.

(39M2016, 2016 October 24)

8. REGARDING THE EXPERTISE OF ELECTOR MEMBERS

The elector members of Audit Committee must be financially literate. At least one of the elector members must be a financial expert.

9. REGARDING THE CONTINUING EDUCATION OF AUDIT COMMITTEE MEMBERS

Members of the Audit Committee shall have the opportunity to obtain education, either from within *The City* or from outside educational programs, to ensure their knowledge is sufficient to fulfill their responsibilities as Audit Committee members.

Funding to support appropriate professional development for the Audit Committee members may be included in the Audit Committee's budget.

(39M2016, 2016 October 24)

SCHEDULE “B”

REGARDING THE EXTERNAL AUDITOR

1. The Audit Committee:
 - a) recommends the appointment of the *External Auditor* to *Council*;
 - b) pre-approves all audit and non-audit services performed by the *External Auditor*. However, the Audit Committee Chair can pre-approve additional audit or non-audit services, performed by the *External Auditor*, up to \$25,000 total annually. Any approvals by the Chair will be reported to the Audit Committee as part of the Audit Committee Quarterly Status Report;
 - (c) requires the *External Auditor*, as an expert in accounting and financial reporting, to express independent judgment about the appropriateness and acceptability of *The City's* financial statements, in accordance with professional standards;
 - (d) prior to the commencement of the annual external financial audit, review the financial audit plan and estimated audit fees with the *External Auditor* and forward to *Council* for information;

(39M2016, 2016 October 24)
 - (e) in conjunction with Administration's presentation of the annual financial statements, receive and review the *External Auditor's* annual audit report. This report is to be forwarded to *Council* for information;
 - (f) receives and reviews the *External Auditor's* Management Letter(s), together with any *Administration* responses, and forward, either in full or in summary, to *Council* for information;
 - (g) must meet with the *External Auditor*, in the absence of *Administration*, at least quarterly;
 - (h) annually assesses the performance of the *External Auditor*, following the presentation of the *External Auditor's* current Management Letter;
 - (i) must meet at least annually with *Administration*, in the absence of the *External Auditor*, at the time of the *External Auditor* performance assessment.
2. Unless otherwise determined by Council the *External Auditor* contract is awarded on a five-year basis, subject to satisfactory annual assessments. The contract may be extended annually beyond five years, based on Audit Committee's recommendation for *Council's* approval.

SCHEDULE “C”

REGARDING THE CITY AUDITOR

1. The Audit Committee:
 - (a) recommends to *Council* the appointment of an individual to the designated officer position of *City Auditor*, as established in Bylaw 30M2004;
 - (b) in accordance with Bylaw 30M2004, oversees and ensures the accountability of the *City Auditor* on behalf of *Council*;
 - (c) ensures that *City Auditor’s* Office undergoes a Quality Assessment review, as prescribed by the Institute of Internal Auditors (IIA) at least every five years;
 - (d) assesses annually, the performance of the *City Auditor*, by way of a formal review process through the Audit Committee Chair and Personnel Sub-Committee and forwards this assessment to *Council* for information;
 - (e) reviews and approves the *City Auditor’s* Office annual work plan and forwards to *Council* for information; the Audit Committee or *Council* may not remove items from the *City Auditor’s* work plan but may direct items be added to the plan;
 - (f) reviews and forwards to *Council* for information, the *City Auditor’s* Office quarterly and annual status reports;
 - (g) receives directly from the *City Auditor* any individual audit report and forwards these to *Council* for information;
 - (h) receives directly from the *City Auditor*, at least annually, a report providing the status of *Administration* action on the recommendations contained in previous audit reports; this report will be forwarded to *Council* for information;
 - (i) ensures that formal procedures exist to allow confidential discussions between Audit Committee and the *City Auditor*;
 - (j) ensures that the combined work of the *City Auditor* and the *External Auditor* provides an appropriate level of audit coverage and is effectively coordinated;
 - (k) meets as required with the *City Auditor*, in the absence of *Administration*;
 - (l) reviews and recommends *Council* approval of the *City Auditor’s* Office budget, annually or as required by *Council* budget guidelines;
 - (m) reviews and approves the *City Auditor’s* personal expense reports, or other expenditures as required, through the Audit Committee Chair.
2. The *City Auditor*:
 - (a) must formally present the annual audit work plan to *Council* for information;
(39M2016, 2016 October 24)
 - (b) must submit the annual status report to *Council* for information after review by the Audit Committee.

(39M2016, 2016 October 24)

SCHEDULE “D”

REGARDING THE AUDIT RESOURCE MANAGEMENT AND THE EXECUTIVE ASSISTANT

1. The Audit Committee:
 - a) appoints an individual to the position of Executive Assistant, to manage the Audit Resource Management;
 - b) supervises and ensures the accountability of the Executive Assistant through the Chair;
 - c) assesses annually, the performance of the Executive Assistant, by way of a formal review process through the Chair and Personnel Sub-Committee;
 - d) reviews and approves the Executive Assistant's personal expense reports, through the Chair;
 - e) approves any changes to the Executive Assistant's job description.
2. The Executive Assistant reports to the Audit Committee.
3. The Audit Resource Management's Terms of Reference to be reviewed at least every three years.
4. The Executive Assistant will provide planning, documentation and meeting logistical support to the Audit Committee under the direction of the Audit Committee Chair.

(48M2013, 2013 November 18)
(39M2016, 2016 October 24)

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0733**

External Auditor 2020 Audit Service Plan and Fees

EXECUTIVE SUMMARY

This report seeks the Audit Committee's approval with respect to External Auditor, Deloitte LLP's proposed 2020 Audit Service Plan and Fees for the audit of the consolidated financial statements of The City of Calgary.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee:

1. Reviews and approves the Deloitte 2020 Audit Service Plan (Attachment); and
2. Recommends that Council receive this Report and the Attachment for the Corporate Record.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012 states the Audit Committee will:

Schedule B, Regarding the External Auditor

"1(b) pre-approves all audit and non-audit services performed by the External Auditor. However, the Audit Committee Chair can pre-approve additional audit or non-audit services, performed by the External Auditor, up to \$25,000 total annually. Any approvals by the Chair will be reported to the Audit Committee as part of the Audit Committee Annual Status Report."

"1(d) prior to the commencement of the annual external financial audit, review the financial audit plan with *the External Auditor*."

BACKGROUND

Prior to beginning the annual audit, the External Auditor submits an Audit Service Plan to the Audit Committee for approval. Deloitte LLP, The City's external auditor for the 2020 fiscal year, has prepared an Audit Service Plan and the estimated fees for Audit Committee to review (Attachment).

The Audit Service Plan includes an overview of the audit scope and approach, related parties and other audits, planned communications, audit engagement team, key considerations affecting the 2020 Audit and an estimate of the fees. The audit is designed to enable Deloitte to express an opinion on the 2020 December 31 consolidated financial statements of the City of Calgary.

Certain areas of the 2020 audit will be directly impacted due to Covid-19 and are identified in the Service Plan; however, the full impact of Covid-19 on the operations and financial results of The City cannot be determined as of 2020 July 23 and the list will continue to evolve. Once the full extent of Covid-10 on the 2020 Audit is determined a fee estimate for additional time will be provided.

**Audit Resource Management Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0733**

External Auditor 2020 Audit Service Plan and Fees

The Audit Service Plan indicates an audit completion date of 2021 April, including a meeting with Audit Committee and the issuance of the management letter in 2021 June. This will enable the City to meet the 2021 May 01 Municipal Government Act deadline with the Province of Alberta, for filing its audited annual financial statements.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Not applicable

Stakeholder Engagement, Research and Communication

Not applicable.

Strategic Alignment

Council Priority: A Well-Run City. Calgary has a modern and efficient municipal government that is focused on resilience and continuous improvement to make life better every day for Calgarians by learning from citizens, partners, and others.

Social, Environmental, Economic (External)

Not applicable

Financial Capacity

Current and Future Operating Budget:

The Audit Committee budget contains a line item with respect to External Auditor services.

Current and Future Capital Budget:

There are no capital budget implications for this report.

Risk Assessment

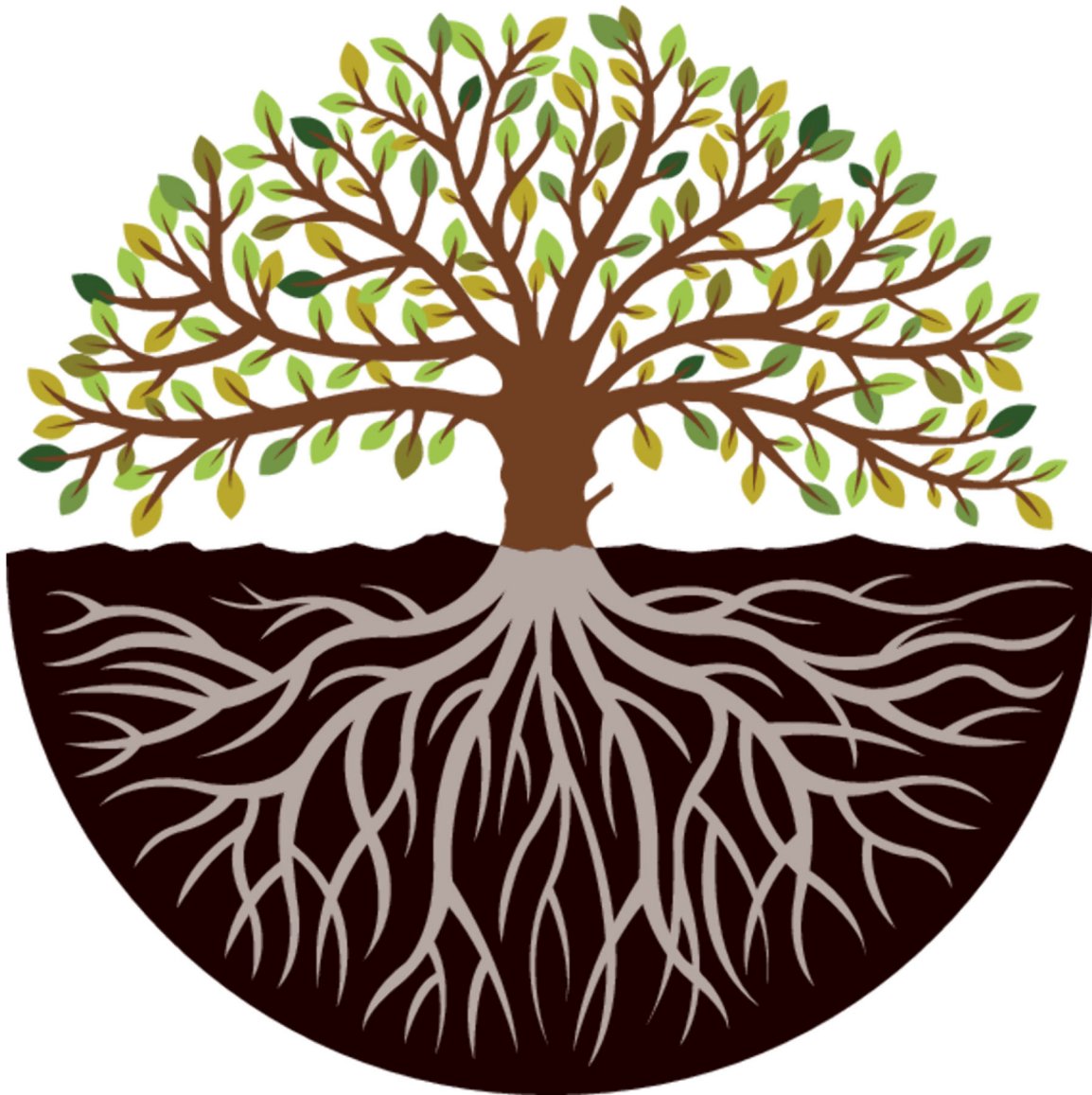
Not applicable

REASON(S) FOR RECOMMENDATION(S):

Audit Committee Bylaw 48M2012 requires the Audit Committee to review the External Auditor's Audit Service Plan and forward it to Council prior to commencement of their audit.

ATTACHMENT(S)

1. Deloitte – The City of Calgary 2020 Audit Service Plan



The City of Calgary 2020 Audit service plan

For the year ending December 31, 2020
Presented to the Audit Committee
July 23, 2020

July 15, 2020

To the Members of the Audit Committee of
The City Council of The City of Calgary

2020 Audit service plan

Dear Audit Committee Members:

We are pleased to provide you with our audit service plan for The City of Calgary ("The City") for the year ending December 31, 2020. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, our team and an estimate of our fees.

Our engagement will include audits of the following:

- The City's consolidated financial statements as at and for the year ending December 31, 2020
- The Municipal Information Return for the year ending December 31, 2020
- The Funds Held in Trust by The City for the year ending December 31, 2020
- The City newspaper insert for the year ending December 31, 2020 (summarization of The City's 2020 financial information)

(Collectively, the "financial statements").

We are proud of our relationship with The City. Our objective at Deloitte is to set the standard of excellence and our team is committed to providing an efficient, high-quality audit. Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of specialists. Our professionals will continue providing you with best practices and insights to face the increasingly complex array of issues and challenges encountered by entities like The City. At Deloitte, we are committed to helping The City grow and successfully achieve its business objectives in today's ever-changing economy.

We are providing this audit service plan to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee to assist in discharging its responsibilities with respect to the financial statements for the year ending December 31, 2020 and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours truly,



Chartered Professional Accountants

Table of contents

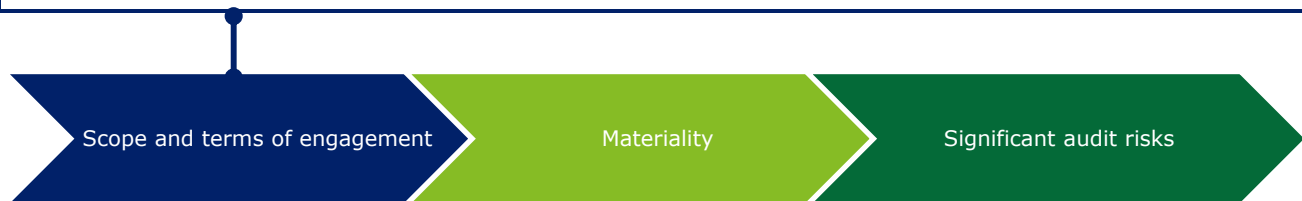
Our audit explained	1
Significant audit risks	3
Other key areas for 2020	5
COVID-19 impact on the 2020 audit	8
Appendix 1 – Audit approach	9
Appendix 2 – Audit fees	14
Appendix 3 – Related parties and other audits	15
Appendix 4 – Communication requirements	17
Appendix 5 – Audit team	19
Appendix 6 – 2020 Summary audit timeline	20
Appendix 7 – Upcoming financial reporting standards	21
Appendix 8 – Revised CAS 540, <i>Auditing Accounting Estimates and Related Disclosures</i>	22
Appendix 9 – Draft confirmation of changes letter	24

Our audit explained

Audit scope and terms of engagement

We have been asked to perform an audit of The City's financial statements prepared in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ending December 31, 2020. Our audit will be conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master services agreement ("MSA") dated July 25, 2018, signed by the Audit Committee and Administration, and the draft confirmation of changes letter included in Appendix 9. Our confirmation of changes letter should be signed on behalf of City Council and Administration.



Materiality

We are responsible for providing reasonable assurance that your financial statements as a whole are free from material misstatement.

Materiality levels are determined on the basis of consolidated budgeted operating expenses and other qualitative factors. Our preliminary estimate of materiality for the year ending December 31, 2020 has been set at \$65,000,000 (2019, \$65,000,000).

In discussion with Administration, as the full impact of COVID-19 on the financial results of The City cannot be determined as at the audit plan stage (specifically budgeted and/or actual operating expense), we have set preliminary materiality at the same level as the prior year. As part of our year-end audit procedures, we will revise materiality, if required.

We will inform the Audit Committee of all uncorrected misstatements greater than a clearly trivial amount of 5% of materiality and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will ask that any misstatements be corrected.

Significant audit risks

Through our preliminary risk assessment process, we have identified significant audit risks. These risks of material misstatement and related audit responses are discussed in the significant audit risks section of this report.

Fraud risk

We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Asking people involved in the financial reporting process about inappropriate or unusual activity.
2. Testing material consolidation entries and adjustments at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from Administration's effort to manage earnings.
5. Evaluating whether the judgements and decisions related to Administration estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask the Audit Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting The City and their role in the oversight of Administration's antifraud programs.

If we suspect fraud involving Administration, we will immediately inform the Audit Committee of our suspicions and discuss the nature, timing and extent of audit procedures necessary to complete the audit.

Complete engagement reporting

Audit reporting

Under Canadian GAAS, we are required to communicate certain matters to the Audit Committee. The primary reports and formal communications through which we will address these matters are:

- This audit service plan.
- Year end communication.
- Our auditor's report on the financial statements.

Business Insights

We will provide you with insights into the condition of your operations and controls, and offer meaningful suggestions for improvement following the completion of the fiscal 2020 audit.



Audit fees

Please refer to Appendix 2 for fees relating to The City and Appendix 3 for fees for the related parties and other audits.

Significant audit risks

During our risk assessment, we identified some significant audit risks that will require special audit consideration. These risks, together with our planned responses, are described below.

Administration override of controls

Audit risk

Under Canadian Auditing Standards, it is the responsibility of Administration, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.

Administration override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.

This represents a fraud risk for the 2020 audit.

Our proposed audit response

- We will engage in periodic fraud discussions with certain members of senior Administration and others, including The City Auditor, City Manager and the Audit Committee.
- We will consider the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates.
- We will evaluate the business rationale for any significant unusual transactions.
- We will evaluate The City's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process.
- We will test manual, consolidation entries that exhibit characteristics of possible Administration override of controls identified.

Capital deposits – revenue recognition

Audit risk

Capital revenue relating to government funding and private contributions is not recognized in the correct period, as expenditures are incurred.

Our proposed audit response

- We will assess the design and implementation of relevant controls.
- We will apply audit procedures to revenue recognition of capital deposits relating to both government funding and private contributions. Our testing will include, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the revenue recognition criteria under PSAS are recognized as revenue.
- We will obtain capital deposit contracts to ensure that the revenue recorded aligns with the stipulations in the contract.
- We will apply audit procedures to test the completeness of revenue by reviewing the carry-forward forms for financing deficits as at December 31 to determine if grant funding has been applied in the appropriate period.
- We will apply audit procedures to off-site levies, on a sample basis, on the following areas:
 - Signed agreements in the year
 - Debt acquired for off-site levy projects
 - Amounts recognized into revenue in the year
 - Deferred revenue recognized into revenue in the year

Tangible Capital Assets

Audit risk

Completeness, existence and valuation of Tangible Capital Assets ("TCA") work in progress ("WIP") and fund 40 expenditures.

Our proposed audit response

- We will assess the design and implementation of relevant controls.
- On a sampling basis, we will test TCA WIP additions to ensure these WIP additions were appropriately capitalized and accounted for as WIP.
- On a sampling basis, we will test TCA WIP transfers to ensure these WIP projects were appropriately transferred out of WIP and into the correct asset class at project completion.
- On a sampling basis, we will test fund 40 expenditures to ensure these costs were appropriately expensed or capitalized to TCA.

The above noted significant risks have been identified as of the date of issuance of this report. As we perform our audit procedures, we will inform you of any significant changes to the significant risks discussed above and the reasons for those changes.

Other key areas for 2020

Related parties (authorities/subsidiaries/civic partners)

Audit risk

Completeness and disclosure of the accounting for organizations included in the government reporting entity (related authorities or subsidiaries).

Our proposed audit response

- We will review The City's accounting policies and any changes therein related to its related parties.
- We will verify that the related parties have been accounted for and disclosed in accordance with The City's accounting policies and PSAS and perform separate audits of significant related parties.
- We will audit all material balances relating to the related parties.
- We will apply audit procedures to entities identified by Administration in 2020 as possibly meeting the criteria for consolidation under PSAS guidance, if any.

Litigation accruals and contingencies

Audit risk

Completeness and accuracy of claims and litigation matters of The City and its related authorities.

Our proposed audit response

- We will enquire with The City's legal department and The City Solicitor to determine the status of outstanding legal matters.
- We will review legal correspondence from The City Solicitor and external legal counsel (if applicable) and discuss the status of outstanding legal matters with Administration and others, as necessary.
- We will assess the appropriateness of any contingent liabilities and financial statement disclosures.

Property tax revenue

Audit risk

Completeness and accuracy of the accounting for property tax revenue.

Our proposed audit response

- We will perform reasonability tests on property tax revenue balances.
- We will review and test the property tax revenue business cycle process controls.
- We will complete data analytical testing on the property tax revenues for the year ending December 31, 2020.

Government grants and transfers**Audit risk**

Accounting and disclosure of government grants and transfers.

Our proposed audit response

- We will test a sample of funding agreements to determine if the contract requires financial statement disclosure.
- We will test a sample of federal and provincial transfer payments received during the year to fund specific projects.
- We will review the related funding agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period, including the deferred revenue.
- We will review deferred revenue for compliance with the applicable PSAS guidance.
- We will test expenditures and ensure that the corresponding revenue has been recognized.

Reserves**Audit risk**

Completeness and accuracy of the recording and presentation of reserves.

Our proposed audit response

- We will test expenditures charged to each reserve and vouch a sample of expenditures to invoices to verify that the transaction was within the terms and conditions approved by City Council.
- We will test a sample of transfers between reserves, if any, to verify that the transfer was approved by City Council.
- We will also review the completeness and accuracy of the financial statement disclosures relating to reserves.

Commitments and contractual obligations**Audit risk**

Disclosure and completeness of commitments and contractual obligations.

Our proposed audit response

- We will review the completeness and accuracy of the financial statement disclosures relating to The City's commitments and contractual obligations.
- We will ensure that these disclosures are in accordance with PSAS guidance.

Allowance for property taxes receivable***Audit risk**

The allowance for property taxes receivable is a significant estimate determined by Administration. Due to expected significant impacts of COVID-19, there is a risk that the allowance has not been appropriately adjusted for the impacts of COVID-19.

Our proposed audit response

- We will review Administration's methodology and assessment of uncollectible property taxes receivable balances.
- We will also test a sample of property tax payments received during the year and after year end to assess collectability.

Valuation of registered defined benefit pension plans' pension assets and obligation***Audit risk**

The pension asset is based on actual market values as at October 31, projected to December 31, based on expected contributions, benefits payments and return on assets.

The pension obligation is determined based on various inputs and assumptions (including discount rates, inflation rates, mortality rates, termination rates, retirement rates, salary increases, etc).

Due to the significant impact of COVID-19, there is a risk that the valuation of the defined benefit pension plan's pension asset and obligation are inaccurate as they have not been appropriately updated for significant changes in the underlying inputs and assumptions.

Our proposed audit response

- We will assess the reasonability of the projected pension asset.
- We will review the various inputs and assumptions used in the calculation of the pension obligation and assess their reasonableness.
- We may consult internal Deloitte experts on the input and assumptions utilized by The City if the changes are significant.
- We will review and test the pension asset and obligation business cycle process controls to ensure the controls surrounding the review of the inputs and assumptions are designed and implemented properly.

Valuation of land inventory***Audit risk**

Land inventories are measured at the lower of cost and net realizable value. There is a risk that certain land inventories may be carried at a cost that is higher than net realizable value due to poor market conditions resulting from COVID-19.

Our proposed audit response

- We will review Administration's assessment of net realizable value of land inventories.
- We will also test a sample of land inventories to determine if the net realizable value is less than cost and a write-down is required.

Allowance for off-site levy receivables ***Audit risk**

Due to the significant impact of COVID-19, there is a risk of off-site levy receivable balances being uncollectible due to entities being unable to pay.

Our proposed audit response

- We will review Administration's assessment of uncollectible off-site levy receivable balances.
- We will also test a sample of off-site levy payments received during the year and after year end to assess collectability.

Valuation of investments***Audit risk**

Investments are measured at the lower of cost and fair value. Fair values have fluctuated significantly due to COVID-19, and therefore, there is a risk that the fair value of investments is less than the cost and write-offs are required.

Our proposed audit response

- We will assess the design and implementation of relevant controls.
- We will review The City's assessment of the fair value of investments, including the valuation techniques and inputs used.
- We will assess if any write-downs are required on the investments.

*During our risk assessment, we identified these audit risks due to the expected impact of COVID-19 on the financial results of The City.

The above noted other key areas have been identified as of the date of issuance of this report. As we perform our audit procedures, we will inform you of any significant changes to the other key areas discussed above and the reasons for those changes.

COVID-19 impact on the 2020 audit

Due to COVID-19, we have identified certain areas of our 2020 audit that will be directly impacted in comparison to previous years. These changes will have an impact to our audit in terms of nature, timing and extent of audit procedures that we will be required to perform. We have outlined below the significant changes identified to date; however, as the full impact of COVID-19 on the operations and financial results of The City cannot be determined as at July 23, 2020, this list is not all inclusive and will continue to evolve as we progress through the 2020 audit.

- Identify audit risks specific to COVID-19 and plan audit procedures to address these risks.
- Increase communication with City Administration throughout the year to understand COVID-19 impacts and implications.
- Understand and apply audit procedures to any changes in processes and controls at The City.
- Consider alternative methods to obtain audit evidence (scanned copies, electronic versions, video calls to walk through controls, analyses and questions) due to remote work arrangements.
- Increase communication with related authorities/subsidiaries throughout the year to understand COVID-19 impacts and implications.
- In the event that the governments continue to require social distancing, consider and plan to perform audit testing remotely, as required.

Throughout the year, we will work with Administration and continue to monitor for emerging risks as they occur and incorporate newly identified risks into our risk assessment process, if required. We will also monitor audit scope and timelines and adjust accordingly to ensure we meet reporting deadlines. We will inform the Audit Committee of any significant changes to our risk assessment.

Appendix 1 – Audit approach

Deloitte's audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing The City.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions.
- Understanding the composition and structure of your business and organization.
- Understanding your accounting processes and internal controls.
- Understanding your information technology systems.
- Identifying potential engagement risks.
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks.

2. Assessing and responding to engagement risk

Our audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of Administration representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether The City's selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from Administration's effort to manage earnings.
- Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the Audit Committee regarding:

- Its views about the risk of fraud.
- Whether it has knowledge of any actual or suspected fraud affecting The City.
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Audit Committee is aware of tips or complaints regarding The City's financial reporting (including those received through The City's internal whistleblower program, if such a program exists) and, if so, the Audit Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving Administration, we will communicate these suspicions to the Audit Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Information technology

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting;
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audit; and
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with Administration for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for Administration's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Audit Committee and Administration of any significant deficiencies that are identified in the course of conducting the audit.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the clearly trivial threshold has been set at 5% of materiality), will be reported to Administration and the Audit Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion.
- The misstatements identified during the audit do not result in the financial statements being materially misstated.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to The City.

We are independent of The City and we will reconfirm our independence in our final report to the Audit Committee.

5. Leveraging technology

Our audit approach utilizes fully automated, paperless audit software where information and supporting schedules are prepared and exchanged electronically. Our audit software facilitates leveraging what The City already prepares as part of account analysis and financial closings and allows us to share files and work papers with our engagement team members. We use other web-based connectivity tools and file interrogation software to quickly and comprehensively analyze data. Our audit software supports the full lifecycle of an audit engagement. The proprietary software we use is globally connected and allows for real-time tracking, ultimately providing better status reporting to our clients. Our software leverages industry guidance and knowledge so that we tailor our approach in a meaningful way to reflect the nuances of our clients' businesses. Our ability to customize our software to each client's specific situation enables us to have more engaging business conversations. In addition, our software allows us to track findings and observations noted throughout the course of our audit, enabling us to provide our clients with more meaningful insights and discuss any issues as they arise with fewer surprises.

The tools described in the following table help us determine our audit scope, prepare consistent audit work papers and files, conduct analytical procedures, select data for testing, accumulate audit results and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of The City's own technologies to gain further efficiencies.

Technology	Description	Benefits
Deloitte Audit System	Deloitte's audit software, incorporating audit-specific templates, reference materials, support documents and Administration insights.	<ul style="list-style-type: none"> • Rapid and effective electronic transfer of information among the audit team members.
Deloitte Spotlight	An integrated analytics application that leverages analytical data techniques to more effectively test large volumes of journal entry data, in order to uncover unusual trends, patterns, or anomalies in The City's journal entries.	<ul style="list-style-type: none"> • Enables easy extraction from your systems and other applications in a consistent and repeatable format that requires minimal effort from you. • Allows for the customization of characteristics of fraudulent journal entries, which are specific to particular circumstances. • Analyzes the entire journal entry data set and returns results in a matter of minutes. • This tool further enhances the data analytics & visualization tools above for testing of journal entries.
Data Analytics & Visualization	The City will get an enhanced access to leading practices in data mining and insightful analytics reports. Our Data Visualization Toolset can also help more clearly, and effectively, interpret and understand complex data sets.	<ul style="list-style-type: none"> • Pinpoints risks more effectively, allowing us to focus on outliers and reduces efforts spent on tedious detail testing that provides less insight. • Allows for the visualization of the group audit scope and strategy to very quickly assess the sufficiency of coverage. • This tool is currently utilized on The City audit engagement through testing of property and business tax revenue.
Deloitte Technical Library	A comprehensive online compilation of accounting and financial disclosure literature that allows Deloitte to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our own interpretations and guidance.	<ul style="list-style-type: none"> • The extensive accounting and reporting guidance helps support the quick and efficient research of complex accounting matters.

6. Audit scope uncertainty

Our audit service plan is based on several assumptions. Circumstances may arise during the engagement that could significantly affect the scope, extent and timing of our audit procedures. These circumstances may include, but are not limited to:

- A deterioration in the quality of The City's accounting records during the current year engagement compared to the prior year engagement.
- The identification of significant deficiencies in The City's internal control that result in the expansion of our audit procedures.
- The identification, during our audit, of a significant level of proposed audit adjustments.

- The occurrence of significant new issues or changes, such as:
 - New accounting issues
 - Changes in accounting policies or practices from those used in prior years
 - Events or transactions not contemplated in our budget
 - Changes in The City’s financial reporting process or IT systems
 - Changes in The City’s accounting personnel, their responsibilities, or their availability
 - Changes in auditing standards
 - Significant adjustments to accounts and balances
 - Changes in The City’s use of experts or specialists and/or their work product does not meet the qualifications that Canadian GAAS require for us to be able to use their work
 - Changes in the audit scope caused by events that are beyond our control
 - Additional COVID-19 impact on operations and/or financial results

If any of these or similar such circumstances arise during the course of our audit, we will discuss them on a timely basis with Administration and provide the Audit Committee with a report regarding the impact on our audit at its next scheduled meeting. Matters that we consider to be significant and that may be sensitive from a reporting timing perspective will be communicated immediately to the Chair of the Audit Committee.

Appendix 2 – Audit fees

We focus our activities and make every effort to optimize the efficiency of our audit.

We recognize and are sensitive to your concerns about managing costs. Therefore, we will maximize the efficiency of our audit by focusing on risk areas and coordinating our activities with Administration. Furthermore, our current audit plan builds upon the successes achieved in the 2019 year-end audit.

The following fee estimate is preliminary and may be adjusted based on the final scope of our audit and our final determination of the audit procedures that we consider necessary to enable us to express an opinion on the financial statements. Our anticipated level of work and the associated fee estimate do not include the effect of any regulatory or other changes to existing auditing and accounting standards yet to be issued. We will seek the Audit Committee's pre-approval before commencing the additional procedures arising from these unexpected changes.

The 2020 estimated audit fees are as follows:		2020*	2019*
The City of Calgary consolidated financial statement audit		\$293,400**	\$290,500**
Municipal Information Return		\$4,600	\$4,600
Funds Held in Trust Audit		\$1,800	\$1,800
Newspaper insert (summarization of The City's financial information)	Included in the City of Calgary Audit fee		Included in the City of Calgary Audit fee
PS 3260, <i>Liability for contaminated sites</i> ***		-	\$5,000
Audit procedures on accounting transactions and related to financial statement disclosure of P3 Agreement – Stoney Transit Facility dated September 13, 2016***		-	\$5,000
Additional audits as requested by Administration and the Audit Committee up to approval limit		\$25,000	\$25,000
Adoption of new accounting standard for December 31, 2019		-	\$7,500
Additional audit procedures due to the impact of COVID-19****		\$TBD	-
Total		\$324,800	\$339,400

* These fees are subject to a 7% administrative charge and applicable GST.

** The category previously listed as "audit procedures on related authorities for consolidation purposes" has been re-grouped into the category "The City of Calgary consolidated financial statement audit".

*** The review of all high risk sites in PS 3260 was substantially completed in 2019. The P3 Agreement was substantially completed in 2019.

**** Based on discussions with Administration and as discussed on page 8 of our report, the full impact of COVID-19 on The City's operations and financial results cannot be determined as at the date of issuance of this report. As such, once we have determined the full extent of the impact of COVID-19 on the 2020 audit, we will provide a fee estimate for the additional time incurred.

Appendix 3 – Related parties and other audits

Summary of engagement timing and estimated fees for the year ending December 31, 2020. These fees include only the base audit fee for each entity. As the 2020 audit planning for related party and other audits will be completed at later date, these fees are subject to change based on the impact of COVID-19 and any other operational changes at each entity.

Entity	Reporting entity relationship	Estimated audit completion	Estimated 2020 base audit fee**	2019 base audit fee
The City of Calgary consolidated	City of Calgary Audit Committee	April 2021	\$293,400	\$290,500
Calgary Municipal Land Corporation	Calgary Municipal Land Corporation Audit Committee	April 2021	\$52,700	\$52,200
Calgary Parking Authority	Calgary Parking Authority Audit Committee	March 2021	\$91,100	\$90,200
Calgary Public Library	Calgary Public Library Finance and Audit Committee	March 2021	\$40,500	\$40,100
Calhome Properties Ltd.	Calhome Properties Ltd. Audit Committee	March 2021	\$80,000	\$79,200
Calgary Police Service	Calgary Police Commission	May 2021*	\$50,600	\$50,100
TELUS Convention Centre	TELUS Convention Centre Audit Committee	May 2021*	\$42,800	\$42,400
ENMAX Corporation	ENMAX Audit Committee	March 2021	\$324,700	\$321,500
Elected Officials Pension Plan	Pension Governance Committee	April 2021	\$7,500	\$7,400
Supplementary Pension Plan	Pension Governance Committee	April 2021	\$14,100	\$14,000
Municipal Employees Benefits Association of Calgary	Executive Committee of Municipal Employees Benefits Association of Calgary	April 2021	\$25,900	\$25,700
Family & Community Support Services	City of Calgary Administration	April 2021	\$20,300	\$20,100
Municipal Information Return	City of Calgary Administration	April 2021	\$4,600	\$4,600
Funds Held in Trust	City of Calgary Administration	April 2021	\$1,800	\$1,800
Core Benefit Plan	Audit to be completed every four years - the next audit will be fiscal 2021	-	-	-
Total			\$1,050,000	\$1,039,800

*Fieldwork will be completed by March 2021.

**The fee estimate is per the agreed upon rates in the 2018 Request for Proposal and external audit contract, which is a 1% increase over the prior year amount for base audit fees. This is a preliminary estimate and these fees are subject to review for changes in accounting and/or auditing standards, operational changes and impact of COVID 19 on financial results which may impact the audit effort and final fees. The fees are subject to 7% Administrative charge and GST.

Consolidation

For the purposes of The City's consolidated financial statements, each reporting entity is required to provide their final internal financial statements to Administration prior to completion of the consolidated audit. The timing of our audit procedures is planned for completion prior to the anticipated final auditor's report for The City. Our final auditor's reports are presented to each reporting entity at their respective Audit Committee meetings.

Group audit

The audit of The City is considered to be a group audit and therefore, we are also required to determine the scope of work required for each related authority. We are auditors of all related authorities and issue an audit opinion on the standalone financial statements of each entity, with the exception of Attainable Homes Calgary Corporation, Calgary Economic Development Ltd. and Calgary Arts Development Authority Ltd. For the three entities not audited by Deloitte LLP, we apply audit procedures based on The City's consolidated materiality.

Appendix 4 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

Required communication
Audit Service Plan
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audit b. Significant risks, including fraud risks c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk
3. Significant transactions outside of the normal course of business, including related party transactions
Enquiries of those charged with governance
4. How those charged with governance exercise oversight over Administration's process for identifying and responding to the risk of fraud and the internal control that Administration has established to mitigate these risks
5. Any known suspected or alleged fraud affecting The City
6. Whether The City is in compliance with laws and regulations
Year-end communication
7. Modification to our audit plan and strategy
8. Fraud or possible fraud identified through the audit process
9. Significant accounting policies, practices, unusual transactions, and our related conclusions
10. Alternative treatments for accounting policies and practices that have been discussed with Administration during the current audit period
11. Matters related to going concern
12. Administration judgments and accounting estimates
13. Significant difficulties, if any, encountered during the audit
14. Material written communications between Administration and us, including Administration representation letters
15. Circumstances that affect the form and the content of the auditor's report
16. Modifications to our opinion(s)
17. Our views of significant accounting or auditing matters for which Administration consulted with other accountants and about which we have concerns
18. Significant matters discussed with Administration
19. Matters involving non-compliance with laws and regulations that come to our attention, unless prohibited by law or regulation, including Illegal or possibly illegal acts that come to our attention

Required communication

-
20. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements
-
21. Uncorrected misstatements and disclosure items
-
22. Any significant matters arising during the audit in connection with The City's related parties
-
23. Key Audit Matters
-
24. Other Information
-

Appendix 5 – Audit team

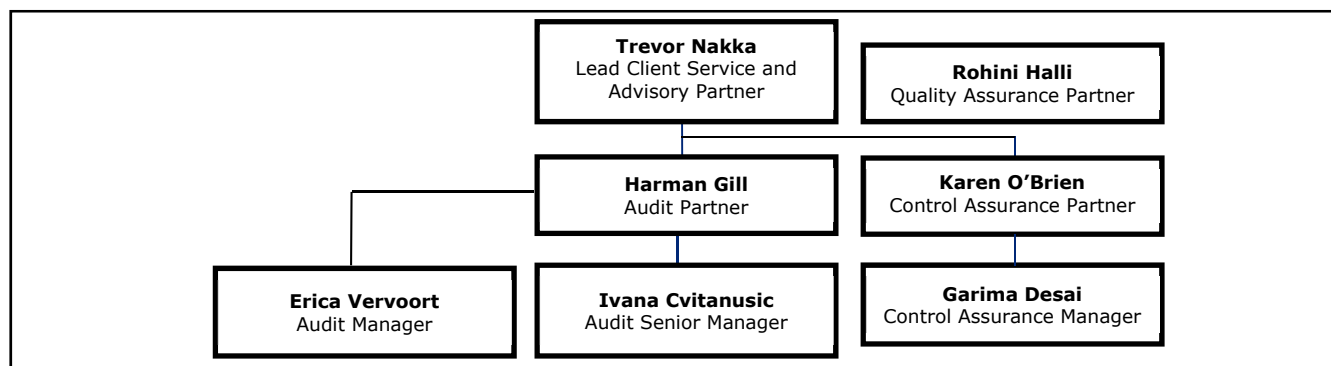
We are led by Trevor Nakka, lead client service partner. As a team we are committed to delivering on Deloitte's client service principles to:

- **make** and meet our commitments to our clients.
- **understand** our clients' business and what is important to them.
- **provide** value and build The City through technical competence and consistent results.
- **demonstrate** professionalism through effective interaction and communications.
- provide a **no surprises** experience.

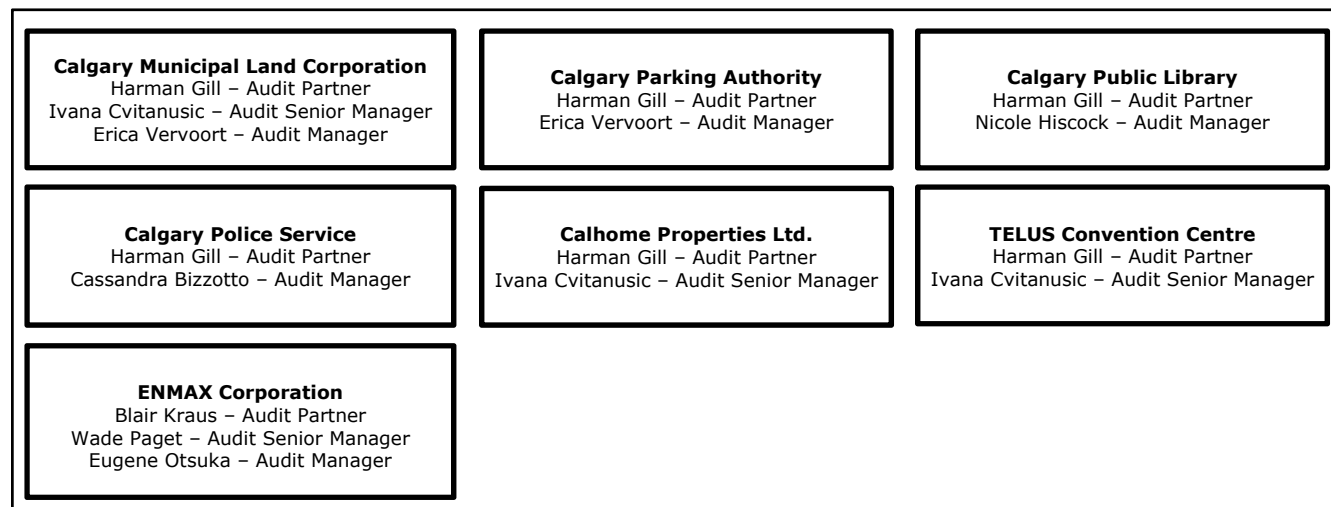
Our audit team members have been chosen for their experience and expertise. Trevor Nakka and/or Harman Gill will attend all Audit Committee meetings and will be accompanied by one or more additional engagement team member, depending on the meeting agenda.

The key members of the core audit engagement of The City and related parties are listed below:

The City of Calgary



Related Authorities



Appendix 6 – 2020 Summary audit timeline

This calendar indicates our various procedures and meetings as planned throughout the year:

	July	August	September	October	November	December	January	February	March	April	May	June
Procedures:												
Audit planning including scope, risks of fraud and fees	•	•										
Audit procedures performed on areas of risks, areas of focus and significant and complex transactions		•			•				•			
August 2020: First interim visit. We will perform the following procedure during our first interim: <ul style="list-style-type: none"> • Audit planning • Design, implementation and operating effectiveness testing of internal controls 		•										
November 2020: Second interim visit. We will perform the following procedures during our second interim: <ul style="list-style-type: none"> • Substantive testing of expenditures, payroll and TCA additions • Design, implementation and operating effectiveness testing of internal controls 					•							
Final audit procedures related to the financial statements									•	•		
Communicate the status of our audit against our plan and any major difficulties encountered										•		
Review the results of our audit and provide audit report										•		
Review of the annual report to citizens										•		
Release of audit report										•		
Update to External Auditor 2019 Management Letter							•					
Present External Auditor 2020 Management Letter												•

Appendix 7 – Upcoming financial reporting standards

Significant upcoming financial reporting standards and other regulatory requirements that are likely to impact The City's financial reporting for the current and future audits are listed below.

Standards	Effective Date
Section PS 2601, <i>Foreign Currency Translation</i>	Fiscal years beginning on or after April 1, 2021 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 3450.
Section PS 3450, <i>Financial Instruments</i>	Fiscal years beginning on or after April 1, 2021 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 2601.
Section PS 1201, <i>Financial Statement Presentation</i>	When Sections PS 2601 and PS 3450 are adopted.
Section PS 3041, <i>Portfolio Investments</i>	When Sections PS 1201, PS 2601 and PS 3450 are adopted.
Section PS 3280, <i>Asset Retirement Obligations</i>	Fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
Section PS 3400, <i>Revenue</i>	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

These future accounting standards are required to be adopted by The City in the near future. Many of these standards are highly complex, require significant planning and resource allocation and impact a number of business units. There is a risk that the adoption of the new standards is not compliant with guidance within the standards or is not completed to meet the required adoption deadline.

As part of our audit procedures, we will review the workplan developed by Administration to ensure the following are included in the workplan:

- Roles and responsibilities of business units and Corporate Finance Reporting personnel
- Deliverables and key internal reporting deadlines
- Implementation and delivery of training sessions for those business units and finance personnel responsible for the implementation of the accounting standards.

We will also assess the progress to date of the workplan and if the timelines outlined by Administration are being met.

Appendix 8 – Revised CAS 540, *Auditing Accounting Estimates and Related Disclosures*

Drivers for the Revised Standard

- Changes in financial reporting frameworks and standards include a greater focus on complex accounting estimates, which highlights the importance of fostering professional skepticism.
- Need to improve communication and transparency between auditors and those charged with governance on complex accounting estimates.



What can you expect from your auditor?

Administration

- Greater focus in assessing how Administration understands the nature, extent, risks, and controls associated with accounting estimates.
- Varying audit procedures to drive work efforts based on assessed risk levels including consideration to adopt a control reliance approach to auditing accounting estimates.
- More interaction with Administration's experts.
- Specific written Administration representations.

Communication with the Audit Committee

- The Audit Committee can expect to have enhanced dialogue on accounting estimates. This may include the auditor's views and assessment of:
 - Significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures
 - Indicators of Administration bias
 - Appropriateness of Administration's methods, assumptions and data used
 - Significant deficiencies in internal controls around accounting estimates

Appendix 9 – Draft confirmation of changes letter

July 23, 2020

Private and confidential

The Audit Committee of The City of Calgary
Councillor Evan Wooley, Audit Committee Chair
The City of Calgary
PO Box 2100, Station M
Calgary, AB T2P 2M5

Ms. Carla Male, Chief Financial Officer
The City of Calgary
PO Box 2100, Station M
Calgary, AB T2P 2M5

Re: Confirmation of Changes to Fees and Updates to the General Business Terms

Dear Sir/Madam:

This letter is issued to you further to the master services agreement ("MSA") between The City of Calgary ("The City") and Deloitte LLP ("Deloitte") dated July 25, 2018. This letter is subject to the terms of the MSA, the appendices to the MSA, the general business terms that form part of the MSA, any previous confirmation letters issued pursuant to the MSA, all as may be updated or amended from time to time.

The purpose of this letter is to confirm our mutual understanding of the changes to the fees and updates to the general business terms.

Changes to fees

The MSA, and any confirmation letters subsequently issued under the MSA, set out the entities we will serve and the nature of the services and our fees.

For the current year, the chart below sets out the entities and the services we will provide to them in respect of their year ends. The chart also sets out an estimate of our professional fees. In addition to the professional fees, you will reimburse us for reasonable expenses and pay an administrative charge of 7% of professional fees, and applicable taxes.

The City of Calgary	Fee
<i>Year ending December 31, 2020</i>	
Consolidated Financial Statement Audit	\$293,400
Funds Held in Trust	\$1,800
Municipal Information Return	\$4,600
Newspaper Insert	Included in the consolidated financial statement audit fee
Additional audits as requested by Administration and the Audit Committee up to approval limit	\$25,000
Additional audit procedures due to the impacts of COVID-19	\$TBD
Total	\$324,400

Update of General Business Terms

The City and Deloitte agree to the following new or modified general business terms being added to the general business terms of the Agreement.

10. Limitation on liability – The Client and Deloitte agree to the following with respect to Deloitte’s liability to the Client:

- a. The Client agrees that Deloitte shall not be liable to the Client for any claims, liabilities, or expenses relating to this Agreement and any Services for an aggregate amount in excess of three times the fees paid by the Client to Deloitte in the twelve months preceding the incident giving rise to the claim.
- b. In no event shall Deloitte be liable for consequential, special, indirect, incidental, punitive or exemplary loss, damage, or expense relating to this Agreement or any Services for any loss of revenue or profit, loss of opportunity, loss of data, or any other commercial or economic loss or failure to realize expected savings.
- c. In any action, claim, loss or damage arising out of this Agreement and any Services, the Client agrees that Deloitte’s liability will be several and not joint and several and the Client may only claim payment from Deloitte of Deloitte’s proportionate share of the total liability based on the degree of fault of Deloitte.

The provisions of this section shall apply to the fullest extent of the law, whether in contract, statute, tort (such as negligence), or otherwise. This section shall survive termination or expiry of the Agreement. The provisions of this section and any other limitations of liability contained in this Agreement shall not apply to any liability which by the governing law of the Agreement is unlawful to limit or exclude. In furtherance of the foregoing, from time to time, Deloitte may have individual partners and employees performing the Services within the Province of Quebec who are members of the Ordre des comptables professionnels agréés du Québec. The limitations outlined in this section as well any limitations of liability contained in this Agreement shall not apply to limit the personal civil liability of members of the Ordre des comptables professionnels agréés du Québec performing professional Services hereunder (and with respect to such members, such limitations shall be deemed not to be included in this Agreement). For purposes of this section, “Deloitte” shall mean Deloitte LLP and its directors, officers, partners, professional corporations, employees, subsidiaries and affiliates and to the extent providing Services, any Deloitte Entities and all of their partners, principals, members, owners, directors, staff and agents; and in all cases any successor or assignee. The Client agrees that any claims that may arise out of this

Agreement or any Services will be brought solely against Deloitte as the contracting party and not against any other Deloitte Entities.

When Deloitte is performing audit, review or attest/assurance services that are subject to the US Public Company Accounting Oversight Board ("PCAOB") and/or US Securities and Exchange Commission ("SEC") rules or professional standards, any clauses that result in a limitation of Deloitte's liability do not apply.

21. **Force Majeure** – No party shall be deemed to be in breach of the engagement as a result of any delays or non-performance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, any law, order or requirement of any governmental agency or authority, or pandemics (including, without limitation, COVID-19 and any such restrictions or conditions on working practices in response to such a threat).

For greater certainty, Deloitte shall have no liability for any failure or delay to perform its obligations related to the Services, to the extent caused and/or contributed to by the spread of COVID-19 and its associated impacts.

This confirmation letter (including any appendices and documents incorporated by reference) will continue in force for future services provided by us to you unless amended.

Please sign and return the attached copy of this letter to indicate your acknowledgement that it is in accordance with your understanding of the arrangements for our engagement for fiscal year 2020.

Yours truly,

Chartered Professional Accountants

Enclosure

The services and terms set forth in and incorporated into this letter are acknowledged and approved by the Audit Committee of The City of Calgary:

Signature

Title

The services and terms set forth in and incorporated into this letter are accepted and agreed to by The City of Calgary Administration:

Signature

Title

**Attainable Homes Calgary Corporation Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0506**

**Attainable Homes Calgary Corporation Audit and Accountability Committee
Annual Report**

EXECUTIVE SUMMARY

This report is the annual audit report to the City of Calgary Audit Committee from the Attainable Homes Calgary Corporation (AHCC) Audit and Accountability Committee.

ADMINISTRATION RECOMMENDATION:

That Audit Committee receive the presentation by Attainable Homes Calgary Corporation for the Corporate Record.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012 states that the Audit Committee is responsible for:

“overseeing its governance responsibility with audit committees of The City’s major autonomous civic entities.”

Section 4(1)(i)

BACKGROUND

A letter dated 2020 February 25 was provided to the President and CEO of Attainable Homes Calgary Corporation from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2019 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

The letter outlined the items to be provided in their annual report to The City’s Audit Committee, as follows:

1. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2020 initiatives/strategy;
2. Report on the organization’s key operating and strategic risks including trends and risk management plans and processes;
3. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City’s Audit Committee;
4. Report on internal controls including information technology and systems;
5. Most recent management letter including management responses as appropriate; and
6. Audit Committee 2020 Work Plan.

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?
2. What is the current composition of the Audit Committee and what is their relevant financial experience?
3. Have there been any significant changes to organizational leadership?
4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

**Attainable Homes Calgary Corporation Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0506**

**Attainable Homes Calgary Corporation Audit and Accountability Committee
Annual Report**

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?
6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

INVESTIGATION: ALTERNATIVES AND ANALYSIS

The Audit and Accountability Committee of Attainable Homes Calgary Corporation (AHCC) has a number of roles and responsibilities (attached); its primary purpose includes the integrity of AHCC's financial statements and the adequacy and effectiveness of internal controls.

In support of the Committee's oversight role, this report includes in the attachments: AHCC Audit and Accountability Committee Terms of Reference; AHCC 2020 Board and Committee Work Plan; AHCC Financial Statements of December 31, 2019; RSM – AHCC 2019 Audit Findings Report; AHCC 2020 Risk Register.

Stakeholder Engagement, Research and Communication

AHCC's management created this report with input from the Audit and Accountability committee and the Board of Directors.

Strategic Alignment

AHCC is a non-profit, social enterprise, created and wholly owned by The City of Calgary, working to help moderate-income Calgarians achieve their dreams of quality home ownership. AHCC operates in alignment with the City's Affordable Housing Strategy (2016-2025).

Social, Environmental, Economic (External)

AHCC was created in 2009 with a mandate to provide 1,000 moderate-income Calgarians with the opportunity for home ownership.

Financial Capacity

Current and Future Operating Budget:

No implications for this report.

Current and Future Capital Budget:

No implications for this report.

Risk Assessment

This report has been completed in accordance with The City of Calgary's Integrated Risk Management (IRM) Policy and Framework. There are no implications for this report.

**Attainable Homes Calgary Corporation Report to
Audit Committee
2020 July 23**

**ISC: UNRESTRICTED
AC2020-0506**

**Attainable Homes Calgary Corporation Audit and Accountability Committee
Annual Report**

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested from Attainable Homes Calgary Corporation.

ATTACHMENT(S)

1. AHCC Annual Report and Risk Management Process
2. AHCC Audit and Accountability Committee Terms of Reference
3. AHCC 2020 Board and Committee Work Plan
4. AHCC Financial Statements as of December 31, 2019
5. RSM – AHCC 2019 Audit Findings Report
6. AHCC 2020 Risk Register

ANNUAL REPORT AND RISK MANAGEMENT PROCESS
For City of Calgary Audit Committee
July 23, 2020

1.0 Overview of Attainable Homes Calgary Corporation

At Attainable Homes Calgary Corporation (AHCC), we believe homeownership is a great thing; it provides housing stability, security and flexibility. Through our program we work to remove barriers to homeownership for moderate-income Calgarians who are looking to move along the housing continuum. We assist people looking to move from the rental market into homeownership, as well as those who have experienced a dramatic life change and are in need of assistance in order to remain a homeowner, such as recently singled Calgarians with children.

Since 2009, through our down-payment assistance program, AHCC has helped over 1,000 families purchase their own homes. Of those, 270 families have moved through the program, either by selling their home, or by paying out AHCC to remove us from title. The funds received from participants exiting the program supports future development.

AHCC is a public not-for-profit corporation incorporated in 2009 under the Business Corporations Act. Upon inception, AHCC received seed funding of one million dollars from the City of Calgary which was matched by the Government of Alberta. In addition, the City of Calgary contributed eight parcels of land at the City's book value, which AHCC pays for at the time of development. Of these original eight sites, AHCC has two remaining. Since the original infusion of funding, AHCC operations have been funded through its own business activity with any profits generated reinvested in the program.

As AHCC moves forward in the new economic environment, we are revisiting our original mandate to ensure we are meeting the needs of our clients. When established, AHCC's mandate was to move 500 people into homes through the down payment assistance program and another 500 into homes through perpetually affordable housing. The down payment assistance program is a success and we will continue with this program, however going into 2020 we are looking to address the second portion of our mandate and develop housing opportunities under a perpetually affordable model as well.

2.0 Governance Structure

AHCC is guided by a strong volunteer board with a diversity in backgrounds and skills. We have twelve potential board positions, ten of which are filled. Two of the Board members are council members appointed by the City of Calgary; the Honourable Mayor Nenshi and Councillor Jyoti Gondek.

The Board has three committees. The Board meeting rhythm has been established so that each committee meets before each Board meeting. There are usually (minimum) 4 meeting of each committee per year and 5 Board meetings per year. Other combined or additional committee meetings are scheduled and held on an as-needed basis. Each committee is made up of at least

2 Board members with the Board Chair acting as an ex officio member of each committee. The committees are:

- Audit and Accountability Committee
- Corporate Performance & Governance Committee
- Development Committee

2.1 Succession Planning & Recruitment Process

Each board member can serve a maximum of two, three-year terms. A Board/CEO succession and Board term review is performed by the Corporate Performance and Governance Committee (CP&G) in the first quarter of every year. At that time, the current Board is measured against a skills matrix and gaps are identified. The Committee then goes to the Board with the recommendation to begin the recruitment process.

Applicants are solicited through a variety of routes including the Institute of Corporate Directors. Candidates are screened with the aid of a skills matrix and short listed for interviews. Interviews are performed by the CP&G Committee and a short list of candidates are taken to the Board for discussion based on those interviews.

After that discussion, a second interview can be performed, or the CP&G Committee can recommend the nomination of a candidate to join the Board. The Board of Directors must approve the candidate(s) to be brought forward to the Shareholder for election.

2.2 Terms of Reference

The Board and Committees review their Charter and Terms of Reference at least annually. There have been no significant changes this year.

2.3 Current Board Members

At the Shareholder Meeting in June 2020, the retirement of Board Directors Sano Stante and Brian Pincott was formally recognized.

Gerry Wagner is Chair of the Audit and Accountability Committee, Melanie Ross is Chair of the Development Committee, and John Kozole is Chair of the CP&G committee.

ROBIN LOKHORST, Board Chair

Robin is Managing Partner of McLeod Law and is the Chair of the firm's Executive Committee. With over 25 years of legal experience, Robin is focused exclusively in commercial and residential real estate.

Working with home builders, property developers and lenders, through to buyers and sellers, Robin has a highly transactional practice involving land development and construction projects, real estate transactions, corporate finance and lease agreements. He is also involved in condominium development work in Alberta and out of province.

Robin has been a Calgarian since 1977, joining McLeod Law over 25 years ago. Robin is on the Executive of the CBA Managing Partner Subsection and serves as legal counsel to the Canadian Luge Association since 2007.

MAYOR NAHEED NENSHI, Director

Naheed Nenshi is Calgary's 36th Mayor. He is a passionate Calgarian, an accomplished business professional and a community leader. During his term in office, Mayor Nenshi's leadership has resulted in many positive changes in Calgary to build better communities and transform government to reinforce a culture of constant citizen-focused improvement at The City of Calgary. Prior to becoming Mayor, he ran a large non-profit, was a trusted advisor to corporate leaders in Canada and the US, and authored the book "Building Up: Making Canada's Cities Magnets for Talent and Engines of Development".

COUNCILLOR JYOTI GONDEK, Director, Member

Jyoti Gondek was elected Calgary City Council to serve Ward 3 in 2017. Prior to public service, Jyoti was an active community member through numerous volunteer and board positions. Her experience in urban planning, development, and real estate is evidenced by her four years as a volunteer citizen member of The City of Calgary's Planning Commission as well as board positions with the Urban Land Institute and Design Talks (d.talks). She also served as an advisor on the National Executive Forum on Public Property and the Calgary Economic Development Commercial Real Estate Committee. Immediately prior to taking office, Jyoti was the Director of the Westman Centre for Real Estate Studies at the University of Calgary's Haskayne School of Business. Jyoti's academic training includes an undergraduate degree in sociology and criminology, an MA in organizational sociology and a PhD in urban sociology.

BARB RICHARDSON, Director, Member - Development Committee

Barb is a seasoned business leader in Calgary and is currently the Senior Vice President of Real Estate for Sotheby's International Realty Canada. Barb hopes to leverage her expertise with Calgary's residential real estate market to assist AHCC in selecting and maximizing the value of their real estate investments.

KEN TOEWS, Director, Member

Ken has over 25 years of experience in land, multifamily, shopping centre, office and hotel development. He played a key role in the development of the Garrison Woods and Currie Barrack's communities and helped shape the redevelopment of the Edmonton Griesbach Armed Forces Base.

Currently, Ken is Vice President of Development for Strategic Group with a focus on repurposing office buildings into apartments, new townhouse developments and low and high-rise residential mixed-use projects. He is an active member of both the University of Calgary's Dean's Circle in the Environmental Design School and the City of Calgary's Development Advisory Committee. Ken also teaches Mixed-Use Development at the U of C and has a passion for affordable, attainable housing.

MELANIE ROSS, Director, Chair – Development Committee

Melanie has over 10 years of experience in the fields of architecture, planning and engineering. She specializes in sustainable building design and currently holds the role of Research Associate and Business Administration Manager on SAIT's Green Building Technologies (GBT). The GBT Lab and Demonstration Centre is Calgary's first net-zero commercial building. Melanie previously led the sustainable building team at Integral Group supporting a wide range of projects ranging from third-party certifications to energy management and building performance. She was appointed to the WELL Building Standard teaching faculty and serves as Chair of the Alberta Chapter Leadership Board of the Canada Green Building Council.

GERRY WAGNER, Director, Chair – Audit & Accountability Committee, Member - Corporate Performance & Governance Committee

Gerry Wagner is a corporate director and advisor. He has over 35 years' experience as a Chartered Accountant and holds the Institute of Corporate Directors designation ICD.D. He serves on the board of directors of both public and private companies. He is also a consultant to companies in the financial services industry. Gerry has held founding director and executive positions at several financial institutions focused on residential mortgage lending including CFF Bank, MonCana Bank of Canada, ResMor Trust Company and Bridgewater Bank.

FRASER de WALLE, Director, Member – Audit & Accountability Committee

Fraser de Walle is the National Residential Construction Product Leader within Marsh Canada's Construction & Surety Practice. He is responsible for product development, market agreements, and the overall residential strategy. Fraser specializes in insurance and surety related products and services required by a residential developer, including but not limited to builders risk, property, casualty, equipment, auto fleet, development bonds and risk management services.

MAVIN GILL, Director, Member – Audit & Accountability Committee

Mavin Gill is a Chartered Professional Accountant with over 7 years of experience in assisting organizations in a variety of industries to meet their accounting, financial reporting, and taxation needs. Industries include manufacturing, retail, auto and equipment dealerships, professional service firms, and real estate and construction companies. Mavin is currently a Senior Manager with KPMG Calgary in the Enterprise private company group. Mavin also serves as a Board of Director with the Entrepreneurial Chartered Professional Accountants of Calgary. He is an active member with the Calgary Chamber of Commerce and was recently appointed to be one of the judges at the Small Business Awards in Calgary.

JOHN KOZOLE, Director, Chair - Corporate Performance & Governance Committee

John has spent the last 12 years in the Home Warranty Industry. Since 2018 he has acted as the CEO of the Saskatchewan New Home Warranty Program and previously held the role of President & CEO of the Alberta New Home Warranty Program (ANHWP) Group of Companies. He has been instrumental in restructuring and evolving both organizations, including creating The New Home Warranty Insurance (Canada) Corporation "NHWIC", a Property and Casualty Insurance company licenced in 4 provinces. NHWIC is part of the ANHWP Group of Companies.

Prior to and concurrently with his involvement in the Home Warranty Industry, John also acts as the President & CEO of Spring Edge Developments Inc. & Spring Willow Development Corporation. He was instrumental in developing the residential communities of Elkton Ridge Estates, The Shire of Spring Valley, and Spring Willow Estates located on the West side of Calgary. John currently sits on the Board of The Canadian Home Warranty Council.

2.4 Current Organizational Leadership

AHCC would like to thank Melody Nikleva, Director of Finance, for the excellent work that she completed for AHCC in 2019. Melody moved on from her position in December 2019 and was replaced by Jaycee Ho as the new Director of Finance. Below is the current leadership team of AHCC.

Jaydan Tait, President & CEO

Jaydan joined AHCC in December 2018. Jaydan is a Registered Professional Planner and has a Masters Degree in Urban Planning from the University of Calgary. Jaydan worked for the City of Calgary early in his career before embarking on a career path in the Development Industry. Since 2003, he has worked for several development companies active in Calgary and across North America, working on land development and building construction projects and communities.

He has specialized in infill multi family and mixed-use product design, delivery and project organization, from land acquisition to project completion. Jaydan has volunteered for BILD Calgary as a member of the Board of Directors and has been active in his community as a volunteer member of his Community Association Board of Directors. Jaydan has deep experience in both development and planning and brings a holistic approach to project development through an understanding of the forces at play in the enterprise of city and community building.

Jaycee Ho, Director of Finance

Jaycee joined AHCC in November 2019. As a Chartered Professional Accountant and Certified Management Accountant (USA), Jaycee brings over 28 years of accounting and finance experience to the organization. Jaycee completed his MBA in 1995. Jaycee spent several years working in the finance group for multinational corporations in Asia and USA, followed by twenty years working with manufacturers, and a leading residential land developer and homebuilder in Canada. Jaycee has a strong background in accounting, treasury and forecasting.

Cathy Wolski, Director of Sales

Cathy joined AHCC in September 2019. Cathy brings over 25 years of administrative and management experience to the organization. Cathy began her career as an administrator within the oil and gas industry progressing to a management position. This was followed by nine years at a leading residential land developer and homebuilder as Executive Assistant and Area Sales Manager. Cathy has a strong background in land administration and sales management.

Jennifer McCarron, Director of Marketing & Communications

Jennifer joined AHCC in October 2016. She brings over 20 years' experience in communication, marketing and stakeholder relations. Jennifer began her career as a communications consultant to all orders of government. She spent five years writing news and producing television before entering the field of non-profit communications and marketing where she has remained for nearly 13 years. Jennifer completed her MA in Communication in 2010. She provides expertise in strategic communications and messaging to connect with program clients and partners.

Justin Seguin, Development Manager

Justin joined AHC on June 15, 2020 as Development Manager. Justin has been a part of the residential construction industry here in Calgary for over 24 years. Justin has extensive hands on experience on site, either working with his hands as a Journeyman Carpenter, directing site activities as a Superintendent, working with all stakeholders as a Project Manager. Justin is passionate about his community and community building. He has volunteered on residents associations, school committees and industry committees; always looking for ways to get involved.

3.0 Recent Financial Highlights

The 2019 fiscal year was challenging as multi-family real estate prices continued to be subject to downward pressure. AHCC closed 82 units with a gross margin of 2.4% in 2019, compared to 48 closings in 2018 with a gross margin of 3.3%. Although the number of units closed has increased, the gross margin has further deteriorated. Marketing and selling expenses were increased due to more units sold in 2019 vs 2018. Inventory carrying costs decreased steadily over the year as inventory was sold. As a result of higher sales, reduced impairment of inventory and no further unrealized loss on equity receivables, AHCC has reduced its operating loss as of December 31, 2019.

Units held in inventory decreased greatly during the year as the standing inventory sales strategy was implemented. The Reach Martindale townhome project provided more units to sell starting in the spring of 2019. The result of selling the standing inventory and units completed at the Reach Martindale project was a significantly lower balance of the credit facilities than in 2018. AHCC reports that the balance on the revolving credit line was reduced from \$10 million to under \$4 million currently. AHCC continues to limit carry of standing inventory in an ongoing effort to limit carrying costs and interest expenses.

3.1 2019 Audit Results

AHCC reports its financial results in accordance with Canadian public sector accounting standards for government not-for-profit organizations.

Both the 2018 and 2019 Audits were completed by RSM Canada. AHCC had the same Audit Partner (Terry Booth), which provided continuity on the audit team.

While an unqualified audit opinion was issued, the audit report referenced a "Material Uncertainty Related to Going Concern". AHCC included this going concern note mainly due to

the net loss for the year ended December 31, 2019 of \$2,150,150 which included asset impairments of \$375,180. Should losses continue and AHCC be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.

The net loss was the result of:

- Continued reduction in value of the, now sold, standing inventory and accrual of higher than budgeted interest and carrying costs
- Declining values and slower than forecast sales pace at 2 projects, Winston and Sage Meadows
- Downward revenue adjustment to the Reach Martindale budget on sold units

i) Covenants

AHCC is in compliance with its debt covenant, the Debt equity ratio. Since our last presentation to City of Calgary Audit Committee in 2019, AHCC negotiated with its lender the removal of the Interest Coverage Ratio as a covenant which had become less relevant.

ii) 2019 Financial Results

In 2019, AHCC leadership has made significant progress in reducing inventory levels. In order to do so, the inventory had been sold at below targeted margins. AHCC believes that reducing the number of inventory units carried by the organization is key to maintaining financial strength and flexibility. AHCC has used the proceeds from the sale of this aged inventory to reduce debt levels and fund the townhouse project.

Although AHCC held significant inventory at the first half of year 2019, which incurred higher interest expense and carrying cost in 2019, standing inventory was significantly reduced. As a result, interest expenses and carrying cost has been trending downward since Q4 2019 and Q1 2020.

AHCC has also imposed an internal pre-sales test relating to construction of buildings in its townhouse project. AHCC will only commence construction once a reasonable number of units have firm sales; this is a key risk management approach which will ensure AHCC does not invest significant funds into construction before having firm revenue in place.

Overall the operating deficiencies in 2019 was \$2,150,150, compared to \$2,845,820 in 2018, an improvement of \$695,670. AHCC is forecasted to further reduce such operating deficiencies in 2020 to \$815,690.

iii) Purchase Commitments

At December 31, 2018 AHCC had entered into purchase agreements with third party builders to purchase over \$16M/68 units in housing inventory. AHCC has since

reduced their obligations and managed the associated risk of these commitments in two ways:

- Reducing purchase obligations through negotiation
 - In several projects, the builder partners have been willing to reduce the number of units AHCC was committed to acquire.
- Exercising right to defer purchase clauses
 - In two of the significant purchase agreements, AHCC has the option to defer purchasing units if we do not have a firm sale to an end customer in place. AHCC had exercised this option in two of our projects.
 - This is a strong cost management approach for AHCC as we only pay carrying costs until we have an end purchaser and do not have to finance the units on our credit facilities.

As of May 31, 2020, AHCC's commitment has been reduced to \$5.5M/22 units. Of the unpurchased units, 8 have firm sales in place and will be closed before the end of Q3 2020.

4.0 Internal Controls

During the 2019 Audit, RSM identified two areas of significant deficiency in internal controls, primarily due to turnover in leadership during the year. AHCC is confident that with a new, stabilized leadership group in 2019 and 2020, these issues are being addressed. Below are management's responses to the items noted in the Audit Findings report as included in this submission.

AHCC completed a review of all Internal Controls in late 2019 with all Internal Controls updated, reviewed and approved by the Audit & Accountability Committee on November 21, 2020.

Segregation of Duties

AHCC continues to identify opportunities to better segregate duties where possible while considering the size of the organization. The review of financial results by senior leadership, Audit & Accountability Committee and Board is key to reducing errors and preventing/detecting misappropriations.

Journal Entries

AHCC management has implemented appropriate review and approval of journal entries in 2020. In addition, AHCC has improved its process surrounding journal entries and requires appropriate source documents to be included.

4.1 Internal Controls & Improvements in Efficiency

AHCC staff sign off annually that they are familiar with the internal control documents. The documents are frequently used as a basis for process development and have been an essential part of staff training given the number of new staff at the organization during the past year. In addition, as part of AHCC's Committee workplan and Terms of Reference, the Audit and Accountability Committee reviews internal controls annually.

The current leadership group is committed to a strong internal control environment and encourages staff to review and suggest improvements in internal control documentation.

AHCC moved all core business functions to the cloud, via Microsoft Teams, in Q1 2020. This was a benefit as the impacts of COVID-19 affected working from the centralized office space in March. AHCC information has been secure as we migrated to cloud based work. We will complete a cyber-security review and audit in 2020 identifying any risks or gaps in our current processes related to remote working.

The new management team at AHCC has developed a revised dashboard of key indicators in Q1 2020 which are provided to the Audit & Accountability committee as well as the Board. AHCC's management is placing renewed focus on its forecasting approach, putting greater emphasis on leading indicators and proactive risk management. In addition, AHCC is looking at opportunities to diversify its program through new programs such as down-payment assistance transactions where AHCC does not have to purchase inventory and perpetually affordable housing, ensuring the organization remains relevant into the future.

5.0 Key 2020 Initiatives & Strategy

For the first time, AHCC presented three separate plans for review and approval to the Shareholder as part of the Annual General Meeting on June 22, 2020. In previous years, AHCC would have presented the annual business plan and budget at this AGM for approval only.

As AHCC worked on the business plan in 2019, it was realized that the AHCC Strategic Plan 2017-2022 was inadequate in setting the overarching strategic direction of the organization. The plan was updated through the first half of 2020 and approved by the Board at the June 2020 meeting. Through the work, it was determined that the core business model would be best broken out into a separate business plan. Then, the Operations Plan 2020 was produced, which includes the 2020 tactics, goals and budget. The 2020 Goals are included below.

The plans, including the business plan and budget, were approved by the Shareholder at the AGM.

AHCC Goals 2020 from the Operations Plan 2020

Engage shareholder & stakeholders	1. Prove Return on Investment to Shareholder
	2. Develop a communications plan for each key stakeholder and specifically: <ul style="list-style-type: none"> a. Achieve Board approval of Business Plan outlining the current business model b. Achieve Shareholder support of Strategic Plan 2017-2022 Update c. Achieve lender support of operations plan
	3. Assist 3% of directly generated leads into homeownership & assist 100 clients into homeownership with the DPAL
Develop financial metrics	4. Reduce Operating Deficit by 50% in 2020
	5. Finalize Key Performance Indicators
	6. Develop minimum return threshold to achieve REACH Martindale construction completion
Develop mechanisms to secure land	7. Gain Board approval for value generation plan for 3 development sites (AHC owned & controlled land)
	8. Secure Inventory and enter into next inventory acquisition agreement for DPAL (secure inventory)
Leverage Partnerships	9. Create funding relationship with CMHC and/or other partners for development/construction financing on next development site(s)
	10. Align with non-profit sector allies (e.g. Calgary Housing Company (CHC)) on housing developments (to assist clients emerging from rental in the housing continuum)
	11. Expand roster of builder partners by 3 to grow capacity in Affordable Housing Continuum (tied to #9)

6.0 Key Operating and Strategic Risks

AHCC utilizes the City of Calgary's risk register format to identify, monitor and evaluate key operating and strategic risks. The Risk Register is updated by Management on a regular basis, at least annually, and reviewed with the Audit and Accountability Committee and Board.

The top three risks for AHCC are as follows:

- 1) **The Business Model.** AHCC underwent a comprehensive strategic plan and business plan review starting in December 2019. This culminated in the production of the three plans described in section 5.0 above. The business model, anchored by the down-payment assistance loan, has been articulated in the approved Business Plan 2020. Careful deployment of the down-payment assistance loan tool and development of the perpetually affordable housing program are forecast to meet ongoing market demand and reduce risk for AHCC.
- 2) **Shared Equity Model.** This model, whereby AHCC participates in equity surplus gained when program participants exit the AHCC program, does not generate surpluses as program exits in 2019 did not generate surplus. In fact, program exits resulted in minimum loan repayment to AHCC in the majority of cases. Risk to AHCC was limited by adjusting the minimum repayment amount of the loan to the loan value itself, in 2018. The down-payment assistance loan program remains an effective tool to assist clients into homeownership, but the shared equity component of the program cannot be relied upon, from a business planning perspective, to grow the AHCC surplus. The business plan and budget for 2020 reflects this accordingly.
- 3) **Performance Monitoring.** The completion and approval of the AHCC plans now establishes meaningful and measureable goals for 2020. These goals will form the basis of a re-instituted robust and regular performance monitoring and review process. This process will be implemented in Q3 2020.

6.1 Regulatory & Market Changes

The top three regulatory and market changes and external influences that impact the AHCC's business are:

- 1) **Real Estate in Calgary.** The Calgary real estate market has yet to recover from the cratering of the price of oil experienced in fall 2014, and the market continues to be challenged amidst the impacts of the COVID-19 pandemic. AHCC has put in place a strong sales team, appropriate pricing and a properly designed well-built product in good locations. A key for AHCC's future success is partnering with strong builder groups

who have financial stability and build a well constructed product at a good price point and who share our values as articulated in the Strategic plan 2017-2022 Update.

- 2) **The Multi-Family Housing Market.** AHCC operates exclusively in the multi-family real estate market. AHCC is exposed to market risk due to fluctuations in the Calgary area housing market. Reduced real estate values erode margins, slows sales pace, impacts the valuation of the equity receivables, and increases the risk of value write-downs of inventory and land. To manage this risk, AHCC is minimizing the amount of inventory it carries, ensuring current product is priced appropriately for the current market, and managing pricing risk on future purchase commitments.
- 3) **Government Regulations related to lending and other measures that erode affordability.** Changes in regulations from all levels of government and other policy regulators (CMHC, OSFI, banks, etc.) can have dramatic effects on the AHCC business model. The stress test effectively reduced the buying power of approximately one-third of AHCC's clients. Any future regulatory changes, from local land use policies to federal CMHC initiated down payment policies will be constantly monitored and analyzed for impact to the business model.

The mortgage rules do not take into consideration the kind of program like ours that already provides safe, secure and structured entry into homeownership. Of concern are modest-income families and single-parent families for whom appropriate rental options are less plentiful and security-of-place is paramount.

7.0 Effective Risk Management Assessments

There are multiple results of internal/external business assessments that provide assurance on the effective management of risks as addressed in this presentation, including:

- 1) **Risk Register updated and review**
 - AHCC uses the City of Calgary Risk Register to identify, monitor and report risks.
 - The risks are updated by the President/CEO and reviewed by the A&A Committee of AHCC. Any changes made to the risk register are reviewed and approved by the AHC Board annually, usually in the Q2 meeting.
- 2) **Regular (annual) City of Calgary Audit Committee review**
 - AHCC presents the AHCC "Annual Report and risk Management Process" to the City of Calgary Audit Committee on an as required basis as requested directly by the City Audit Committee, typically annually.
 - The Chair, AHCC A&A Committee, Board Chair, AHC President/CEO & Director of Finance are involved in writing the report and presenting to the City committee.

3) Risks listed in the Business Plan 2020

- Key business risks have now been identified in the AHCC Business Plan 2020. A high level risk register is also included in the Plan.

4) Monthly reporting of credit facility balances with City Treasury

- AHC Administration provides a monthly summary of the balances of AHC lines of credit with the City of Calgary Treasury & Finance as a direct result of the financial challenges experienced in Q1 and Q2 2019 at the Reach Martindale project.

5) Lender relations

- AHCC meets with the Lender on a monthly basis to provide an update on operations.
- The AHCC business model and operations plan are reviewed on an annual basis with the Lender. This supports AHCC's continuing operations under the existing terms of the Revolving Line of Credit and Evergreen line of credit.

6) Revised Key Performance Indicators (KPIs)

- Recently completed KPIs (that provide a snapshot of current business health and act to signal future risks) are included in quarterly Financial Statement review by AHCC A&A Committee.
- KPIs are reviewed and approval by the AHCC Board on a quarterly basis.

7) Enterprise Risk Management Policy

- The Enterprise Risk Management Policy for AHCC was last updated on July 12, 2013 by the then President/CEO. The Policy will undergo a full review for completion in Q3 2020.
- The President/CEO will complete a detailed review of this Policy in Q3 2020 and recommend any changes to the A&A and CP&G committee at the Q4 2020 meeting(s).

8) Internal Controls updated and approved in Q4 2019

- All Internal Controls for AHC were reviewed by Administration and updated in 2019. All ICs were submitted to the A&A Committee for review and approval. The Internal Controls were approved by A&A committee on November 21, 2019. This suite of documents provides sufficient control and guidance for the ongoing operations of the business



Audit & Accountability Committee

Terms of Reference (TOR)

1. Purpose

The Audit & Accountability Committee ("Committee") shall be a Committee of the Attainable Homes Calgary Corporation (AHCC) Board, responsible for enterprise risk management and the stewardship of AHCC's finances and assets. Management, together with the Board and the Committee, is responsible for setting the proper tone, creating and maintaining a culture of honesty and high ethical standards and establishing appropriate measurement and controls to ensure sound financial and operational decision-making; accurate financial reporting; and, to prevent and detect fraud.

The Committee has oversight responsibility and makes recommendations to the Board on:

- a. The integrity of AHCC's financial statements;
- b. Annual budgets and resourcing of the annual business plan;
- c. Risk management with respect to mandate, programs and operations;
- d. Capital Plans and Financing arrangements; and
- e. The adequacy and effectiveness of internal controls.

Make recommendations to the Board and Shareholder regarding the appointment of the auditor and evaluate the results of the external audits and related matters.

2. Committee Composition

- a. The Committee shall be comprised of one Committee Chair, and a minimum of two (2) other members elected by the Board. Committee members will serve for two consecutive years.
- b. It is a requirement that Committee Members are Board Members. The Committee Chair is appointed by the Board Chair and the Committee Members are appointed by the Committee Chair, in consultation with the Board Chair.
- c. The Committee Chair will attend Development Committee meetings as ex-officio, when possible, to provide operational and financial oversight.
- d. The Committee members shall be financially literate with a working familiarity with basic finance and accounting practice; risk measurement and mitigation; and, at least one member shall have accounting or related financial management expertise.
- e. The Chair of the AHCC Board may attend any meeting at their discretion as ex-officio. The President and CEO is a non-voting ex-officio member of the Committee.
- f. The Director, Finance is a non-voting ex-officio member of the Committee.
- g. No member of the Committee shall have any personal interest, directly or indirectly, in any matter put forward for its consideration.



3. Committee Secretary

The AHCC Secretary, or designate, will attend and be the secretary of all Committee meetings.

4. Responsibilities

In fulfilling its responsibilities, the Committee shall report to the Board after each meeting:

A. FINANCIAL AND OPERATIONAL REPORTING PROCESS

- a. Review the Corporation's quarterly and annual financial statements, accounting practices and financial control policies. This review will include a discussion with management and if required the external auditors of significant issues regarding the financial results, accounting principles, practices and management estimates and judgments;
- b. Recommend for approval by the Board quarterly and annual financial statements and reports of AHCC;
- c. Review and recommend for approval by the Board, AHCC's financial and accounting policies;
- d. Review and recommend for approval by the Board, the annual budget of AHCC and any revisions thereto, including:
 - Reviewing the financial impact of new or changed projects and proposals subsequent to the Board's approval of annual budgets;
 - Reviewing and recommending to the Board in respect of those financial obligations and undertakings above;
- e. Review and recommend for approval by the Board, all financial information prepared for public distribution;
- f. Review compliance with all applicable finance and audit legal and regulatory requirements;
- g. Review and make recommendation to the Board regards AHCC's risk management procedures and controls, including:
 - Regular review of the operating context including economic, market, and regulatory influences
 - The maintenance of appropriate insurance;
 - Discussing significant business and operational risks with external professionals and auditors, including their assessment of management's related mitigation plans, processes and programs; Paying particular attention



to significant stakeholders, large, complex and/or unusual transactions, including joint ventures, partnerships and other contractual arrangements, and the hedging strategies, associated accounting treatment and financial statement disclosures;

- Review all material related-party transactions; and
 - Recommending policy and business model changes as conditions change.
- h. Review AHCC's performance measures and key performance indicators for alignment to the AHCC mandate and the desired outcomes of the AHOP or other programs as they are developed.
- i. Oversee the implementation of Reporting Procedures in accordance with this document.

B. EXTERNAL AUDITOR

- a. Review annual and other reports of the External Auditor, including:
- i. The results of their review/audit of the Corporation's financial statements
 - ii. Any significant risk areas or issues reviewed by the External Auditor;
 - iii. Any corrected or uncorrected misstatements and disclosure deficiencies;
 - iv. Any problems or difficulties and management's response; and
 - v. Confirm the External Auditor independence of the Corporation
- b. Inquire as to the External Auditor's assessment of the Corporation's internal control over financial reporting and review management's response to any internal control recommendations of the External Auditors.
- c. To make recommendations to the Board and Shareholder regarding the appointment of an Auditor, review and approve the Audit Plan, process, results and performance of the independent external auditors.
- d. Evaluate the results of external audits and related matters, review and approve auditor fees, including advance approval of any non-audit services performed.
- e. Meet at minimum twice a year with the external auditors; once to review the audit plan and once to receive it and report to the Board on such meetings.
- f. Meet separately with the external auditors to discuss any matters that the Committee or auditors believe should be discussed in camera, including fraud, illegal acts, deficiencies in internal control and similar issues.



- g. Review the audit plan of the external auditor of AHCC and inquire as to the extent the planned audit scope.
- h. Review all material written communications between the external auditors and management, including the annual management representation letter and summary of unrecorded differences.

C. INTERNAL CONTROLS

- a. Oversee financial and operational risk management, monitor the integrity of the financial and business reporting process and the system of internal controls that management and the Board have established.
- b. Review financial results and have the right to inspect all of the accounts and records of AHCC and to discuss those accounts and records with AHCC's management, the Board and the Auditors.
- c. Communicate the Committee's expectations regarding the external auditor's performance and evaluate the auditor's past performance.
- d. Review as required the adequacy and effectiveness of internal controls over the business, accounting and financial reporting systems within the Corporation including management's response to the internal control recommendations of the external auditor.
- e. Review any changes in operating and accounting policies and financial impact thereof and review any major areas of management judgement and estimates that have a significant effect upon the financial and mandate results.
- f. Review annually with management material covenants in credit and loan agreements.
- g. Review and respond to any complaints received by the Corporation regarding accounting, internal controls, or auditing matters including all anonymous submissions by employees; and
- h. Monitor the 'reporting misconduct' process and report all complaints and their disposition to the Board at least annually.

D. INTERNAL AUDIT AND ENTERPRISE RISK ASSESSMENT

- a. Review and assess the need for internal audits on an annual basis;
- b. Review and assess the probability and severity of enterprise risk measures in the Risk Register quarterly



- c. Consider contracting outside assistance to audit internal controls and market and economic assessment;
- d. Perform in depth sensitivity analysis of emerging risks as deemed appropriate; and,
- e. Perform adhoc internal audits as deemed appropriate.

5. Authority and Accountability

The Committee is responsible to the Board and makes recommendations to the Board, as required:

- a. The Committee shall report regularly to the Board on its activities.
- b. The Committee, in consultation with the Board Chair, shall have the authority to direct and supervise the investigation of any matter brought to its attention within the scope of its duties.
- c. The Committee shall have the authority to conduct any work appropriate to fulfilling its responsibilities and it has direct access to anyone in the organization and to the external auditors who will report directly to the Committee.
- d. The Chair of the Committee shall have the authority to approve the engagement of, and compensation to be paid to, independent counsel and other advisors in order to carry out their duties.
- e. The Committee shall review its terms of reference as needed and at least annually and recommend changes as necessary.
- f. The Committee shall review its effectiveness annually.

6. Meetings

- a. The Committee shall meet a minimum of quarterly. Any two members of the Committee may request a special meeting at any time;
- b. The Committee may require the attendance of the AHCC President & CEO, other AHCC staff or accountant engaged by AHCC (non-voting) at meetings as appropriate;
- c. A simple majority of Committee members constitutes quorum for the Committee;
- d. Each member of the Committee has one vote;

7. Resources

The Committee shall be provided with the resources necessary to carry out its responsibilities.

**Approval, Review, Revisions**

Approval Date	Approved By	Originated By	Review / Revision Details
October 14, 2010	Board of Directors	Sharon McCormick	Terms of Reference
September 13, 2012	Board of Directors	Board of Directors	New Position/Title– President & CEO
May 9, 2013	Board of Directors	Marion Shill	Change the frequency of external auditor meetings from once to at least twice/year.
May 9, 2013	Board of Directors	Marion Shill	Change the frequency of the committee meetings from annually to at least quarterly
July 12, 2013	David Watson	David Watson	Formatting Changes
June 26, 2015	Board of Directors	Wendy Hennel	Increase number of committee members; add clauses regarding independence and internal audits
June 20, 2017	Board of Directors	Audit and Accountability Committee	Enhanced enterprise risk measurement and mitigation activities
December 13, 2018	Board of Directors	President and CEO	Harmonization with other Committee TORs and the Board Charter; update A&A Chair as ex-officio of the Development Committee; update of Committee Chair and Committee members appointments as updated in the Board Charter.

2020 AHCC Board and Committee Workplan (Approved – 2020.02.21)

Item	Q1	Q2	Q3	Q4
Annual Business Plan		S	C	C, A, B
Budget – Planning & Approval		S		A, B
Annual Report (previous year)	B	S		
Year End Financial Statements	A, B			
Quarterly Financial Statements	A, B	A, B	A, B	A, B
Auditor's Report (previous year)	A, B	S		
Auditor - Recommend/Approve	A, B	S		
KPIs - Review & Revise Measurement Categories	A	A	A	A, B
Risk Register - Review (& Recommend)	A	A, B	A,(City)	A
Risk Management (procedures & controls) - Review		A		
Outgoing bank transactions over \$100,000 (signed)	A	A	A	A
Strategic Plan - Review		C		
Board Charter - Review			C	
Board/Committees Performance - Review				C, B
Board/CEO Succession & Board Term Review	C			
AHC Policies - Review (amend) - update to strategic plan	C,*A,*D,B			
CP&G TOR - Review (amend as required)			C	
Audit & Accountability TOR - Review (amend as required)			A	
Development Committee TOR – Review (amend as required)			D	
Internal Controls Environment - Review		A		
Disaster Recovery Plan - Review		A		
Records Management Policy & Procedures - Review		A		
CEO Performance Review	B			C
Annual Compensation - Recommend				C, B
Annual Performance & Incentive	C, B			
Unit Inventory Acquisition and Management	D	D	D	D
Project Development & Pipeline	D	D	D	D

(* Policies as assigned to the Committee)

A - Audit & Accountability Committee
B - Board
C - CP&G Committee
D - Development Committee
S - Shareholder
City - City Audit Committee



Financial Statements
For the year ended December 31, 2019

Attainable Homes Calgary Corporation

Statement of Financial Position

As at December 31, 2019 (with comparatives as at December 31, 2018)

	2019	2018
ASSETS		
Cash (Note 14)	\$ 1,350,714	\$ 1,260,996
Accounts receivable	58,066	42,111
Prepaid expenses	39,222	108,320
Inventory (Note 3)	5,370,452	12,052,125
Deposits on units (Notes 4 and 15)	518,805	856,081
Other deposits (Note 5)	11,811	45,237
Equity receivables (Note 6)	5,320,698	4,861,061
Land and site development costs	4,625,904	4,643,809
Projects under development and construction (Note 7)	4,312,609	5,664,111
Tangible capital assets (Note 11)	24,393	36,472
Total assets	\$ 21,632,674	\$ 29,570,323
LIABILITIES		
Accounts payable and accrued liabilities	\$ 577,841	\$ 2,062,483
Provision to complete construction	88,266	-
Credit facilities (Note 8)	5,933,746	10,422,353
Mortgages payable (Note 9)	3,278,804	3,278,804
Customer deposits	139,667	59,786
Deferred rent expense	19,342	7,461
Unearned revenue	6,937	1,215
Total liabilities	10,044,603	15,832,102
NET ASSETS		
Share capital (Note 13)	1	1
Operating reserve (Note 14)	1,000,000	1,000,000
Unrestricted surplus (Note 14)	10,588,070	12,738,220
Total net assets	11,588,071	13,738,221
Total liabilities and net assets	\$ 21,632,674	\$ 29,570,323

Contractual obligations (Note 15)
Subsequent events (Note 1, 9 and 15(a))

See accompanying notes to the financial statements.

On behalf of the Board

(signed) "Robin Lokhorst", Director(signed) "Gerry Wagner", Director

Attainable Homes Calgary Corporation

Statement of Operations

Year ended December 31, 2019 (with comparatives for the year ended December 31, 2018)

	2019	2018
Sales	\$ 20,928,556	\$ 12,891,991
Cost of sales	<u>20,419,063</u>	<u>12,461,203</u>
Gross margin (note 12)	<u>509,493</u>	<u>430,788</u>
Other income	<u>392,472</u>	<u>136,573</u>
	<u>901,965</u>	<u>567,361</u>
EXPENSES		
Salaries and benefits (Note 10)	1,073,218	951,145
Professional fees	222,609	422,645
Marketing and sales	461,732	348,408
Occupancy expenses	122,248	77,743
General and administrative	101,285	99,882
Inventory carrying costs	316,120	328,603
Interest expense	<u>336,879</u>	<u>268,247</u>
	<u>2,634,091</u>	<u>2,496,673</u>
DEFICIENCY BEFORE THE FOLLOWING:	<u>(1,732,126)</u>	<u>(1,929,312)</u>
Amortization of tangible capital assets (Note 11)	13,507	13,680
Impairment of inventory (Note 3)	375,180	579,300
Unrealized loss on equity receivables (Note 6)	-	314,923
Realized gain on equity receivables (Note 6)	(3,303)	(9,295)
Bad debt expense	<u>32,640</u>	<u>17,900</u>
	<u>418,024</u>	<u>916,508</u>
OPERATING DEFICIENCY	<u>\$ (2,150,150)</u>	<u>\$ (2,845,820)</u>

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation

Statement of Changes in Net Assets

Year ended December 31, 2019 (with comparatives for the year ended December 31, 2018)

	2019	2018
NET ASSETS, BEGINNING OF YEAR	\$ 13,738,221	\$ 16,584,041
OPERATING DEFICIENCY	<u>(2,150,150)</u>	<u>(2,845,820)</u>
NET ASSETS, ENDING OF YEAR	<u>\$ 11,588,071</u>	<u>\$ 13,738,221</u>

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation

Statement of Cash Flows

Year ended December 31, 2019 (with comparatives for the year ended December 31, 2018)

	2019	2018
CASH PROVIDED BY (USED IN):		
OPERATING		
Operating (deficiency)	\$ (2,150,150)	\$ (2,845,820)
Non-cash and non-operating items:		
Amortization of tangible capital assets	13,507	13,680
Amortization of deferred financing costs	906	15,082
Unrealized loss on equity receivables	-	314,923
Impairment of inventory	375,180	579,300
	<u>(1,760,557)</u>	<u>(1,922,835)</u>
Non-cash working capital and other operating balances:		
Accounts receivable	(15,955)	230,806
Prepaid expenses	69,098	(95,546)
Deposits on units and other deposits	370,702	1,132,500
Inventory	6,306,493	(1,698,417)
Equity receivables	(459,637)	38,228
Land and site development costs	17,905	(1,165,944)
Projects under development and construction	1,351,502	(4,189,911)
Accounts payable and accrued liabilities	(1,484,642)	1,789,336
Provision to complete construction	88,266	-
Customer deposits	79,881	46,056
Deferred rent expense	11,881	7,461
Unearned revenue	5,722	1,215
	<u>6,341,216</u>	<u>(3,904,216)</u>
Cash provided by (used in) operating activities	<u>4,580,659</u>	<u>(5,827,051)</u>
CAPITAL TRANSACTIONS		
Purchases of tangible capital assets	<u>(1,428)</u>	<u>(19,090)</u>
Cash used in capital activities	<u>(1,428)</u>	<u>(19,090)</u>
FINANCING TRANSACTIONS		
Proceeds from credit facilities	12,389,379	17,990,186
Repayment of credit facilities	<u>(16,878,892)</u>	<u>(11,433,889)</u>
Cash (used in) provided by financing activities	<u>(4,489,513)</u>	<u>6,556,297</u>
Increase in cash, during the year	89,718	710,156
Cash, beginning of year	<u>1,260,996</u>	<u>550,840</u>
Cash, end of year	\$ <u>1,350,714</u>	\$ <u>1,260,996</u>

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

1. Nature of the business

Attainable Homes Calgary Corporation (the "Corporation"), a private not-for-profit corporation, is wholly-owned by The City of Calgary (the "City") and was incorporated November 27, 2009 under the Business Corporations Act of the Province of Alberta. The Corporation provides working, moderate-income Calgarians, an opportunity for home ownership through private and public sector development of entry-level housing. The Corporation is exempt from tax under the *Canada Income Tax Act*.

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. These financial statements do not reflect the adjustments necessary to the presentation and carrying amounts of the assets and liabilities if the Corporation were not able to continue operations and as such adjustments and reclassifications could be material.

The Corporation incurred a loss of \$2,150,150 for the year ended December 31, 2019 (2018 - \$2,845,820). The Corporation has also recorded inventory write downs to net realizable value and allowances on its equity loans to reduce them to their minimum repayments over the last three and two years, respectively.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Corporation's operations, suppliers or other vendors, and customer base, specifically home buyers. Any quarantines, labour shortages or other disruptions to the Corporation's operations, or those of their customers, may adversely impact the Corporation's revenues and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Corporation operates, resulting in an economic downturn that could affect demand for its inventory and program. As of the date of these financial statements, any new work to be started related to the Corporation's project under development and construction will not commence for an unknown period of time. All of the buildings previously under construction at December 31, 2019 have all been completed subsequent to year end. The extent to which the coronavirus impacts the Corporation's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

These factors indicate material uncertainties that cast significant doubt on the Corporation's ability to continue as a going concern.

The Corporation's ability to continue as a going concern is dependent upon its ability to:

- sell the existing inventory and complete and sell the townhouse units under construction at or above its carrying cost at completion;
- sustain positive cash flows from operations; and
- continue to obtain support from its lenders or other parties to meet current and future liabilities and contractual obligations (note 15).

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies

a. Basis of presentation

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAS for Government NPOs").

b. Revenue recognition

Revenue from the sale of housing units and land is recognized upon the transfer of title and when collectability is reasonably assured. Amounts received from customers that have not met the revenue recognition criteria are included in customer deposits.

Other revenues include application fees, customer deposits retained from rescinded purchase transactions, rental income earned from the rental of completed inventory units and administration fees related to the facilitation of sales of housing units not held by the Corporation but sold to individuals that qualify for the Corporation's housing program.

Revenue from application fees is recognized upon the customer paying a non-refundable fee in order to hold the unit selected. Customer deposits retained from rescinded purchase transactions are recognized when a client cancels the transaction after the 10-day rescission period has passed and the waivers have been signed by the client and the Corporation. Rental income is recognized monthly, as the rental occurs. Administration fees are recognized when a firm deal on a housing unit is signed and possession date has been set, the amount can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized on an accrual basis, using the effective interest method.

c. Inventory

The cost of inventory consists of purchase costs of housing units and other costs incurred in preparing the units to be ready for sale. Inventories are measured at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any estimated costs needed to sell the units.

d. Equity receivables

Equity receivables are recognized by the Corporation on the date the Corporation assumes the risks associated with, and acquires the right to receive repayment of principal plus any shared appreciation, in accordance with the terms of the equity loan agreement (Note 6) and when the amount of the loan can be reliably measured. This normally coincides with the disbursement of funds and sale of a housing unit.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies (continued)

Equity receivables are initially reported at cost. Valuation allowances are used to reflect the equity receivable at the lower of cost and net recoverable value. Net recoverable value is the amount determined by management to be the amount of loan receivable that will ultimately be collected. Valuation allowances are determined using the best estimates available in light of past events, current conditions and taking into account all circumstances known at each financial reporting date. Subsequent to initial recognition, valuation allowances are recognized as unrealized losses on the statement of operations. If it is determined that the net recoverable value has subsequently increased, equity receivables can be written back up to their original cost and this reversal of a previously recorded allowance is offset against unrealized losses on the statement of operations in the period that the reversal takes place. Gains or losses are realized in the statement of operations in the period in which the equity receivables are settled.

e. Land and site development costs

Land and site development costs are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the land.

Land will be used for the construction and development of housing units and is recorded at the fair market value of the land at time of acquisition.

Site development costs consist of the capitalized expenditures related to the construction and development of land. Any incidental revenues related to the land inventory have been netted against the site development costs.

f. Projects under development and construction

Projects under development and construction are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the project under development and construction.

Costs capitalized to projects under development and construction include all direct costs relating to the project's carrying costs including interest on debt used to finance project acquisitions, insurance, property taxes and land acquisition costs. Corporate administration overhead is not capitalized.

The costs of the properties are allocated to each building using specific identification and further to each unit of a project based on projected revenues in the building. The cost of a unit is allocated using the net yield method on the basis of the estimated total cost of the project prorated by the anticipated selling price of the unit over the anticipated selling price of the entire project.

Attainable Homes Calgary Corporation**Notes to the Financial Statements**

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies (continued)

As buildings within the project are complete, the construction costs specific to the building as well as a portion of land costs, which are allocated on a pro-rata basis, and estimated completion costs are transferred to inventory. The total estimated costs relating to the sold unit is recorded as a liability once the unit has sold. The unexpended portion of the total estimated costs is shown as a provision to complete construction in the statement of financial position. Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and inventory. Independent contractors and management calculate these estimates, however, until the building is completed, these costs are subject to measurement uncertainty.

g. Tangible capital assets

Tangible capital assets are recorded at historical cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Computers	5
Office equipment and furniture	5
Leasehold improvements	3

One-half of the annual amortization is charged in the year of acquisition and one-half in the year of disposal.

h. Impairment of assets

When conditions indicate that a tangible capital asset, inventory, site development costs or land no longer contributes to the Corporation's ability to provide goods and services, or that the value of future economic benefits associated with the asset are less than its net book value, the cost of the asset, is reduced to reflect the decline in the asset's net realizable value. When the opposite occurs on an asset that has previously been impaired, an impairment reversal is recorded, up to the assets original cost before any impairments. Any write-down, or reversal of write down, is included in the statement of operations.

i. Financial instruments and fair values

All the Corporation's financial instruments have been measured at cost or amortized cost.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies (continued)

j. Use of estimates

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Significant estimates include valuation of inventory, land and site development costs, allowance for doubtful equity receivables and provision to complete construction. Actual results could differ from those estimates.

3. Inventory

Inventory consists entirely of housing units held for re-sale. During the year ended December 31, 2019 inventory was written down by \$375,180 (2018 - \$579,300) to its net realizable value, which has been included in impairment of inventory on the statement of operations.

The movement in inventory during the year consists of the following:

	2019		2018	
	Units	\$	Units	\$
Balance, beginning of year	50	\$ 12,052,125	47	\$ 10,933,008
Purchases	19	4,941,739	49	13,998,388
Transfers from projects under development	36	9,037,114		-
Inventory sold	(82)	(20,285,346)	(46)	(12,299,971)
Impairment	-	(375,180)	-	(579,300)
Balance, end of year	23	\$ 5,370,452	50	\$ 12,052,125

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

4. Deposits on units

As at December 31, 2019, the Corporation has paid \$518,805 (2018 - \$856,081) in non-refundable deposits for 36 (2018 – 68) housing units.

The movement in deposits on units during the year consists of the following:

	2019		2018	
	Units	\$	Units	\$
Balance, beginning of year	68	\$ 856,081	35	\$ 485,708
Additions	-	43,200	84	1,063,585
Carrying costs incurred	-	74,954	-	-
Possessions	(19)	(238,231)	(51)	(693,212)
Deposits released	(11)	(142,245)	-	-
Write-off of carrying costs	-	(74,954)	-	-
Balance, end of year	38	\$ 518,805	68	\$ 856,081

During the year ended December 31, 2019 amendments were made to Purchase Agreements, resulting in the units originally agreed to be purchased being exchanged for a different unit. This exchange did not result in a net change in quantity of units and deposits made on the original units were transferred to the new units. The exchange increased the deposit on two units, as noted in the additions above. As a part of these amendments to the Purchase Agreements, 11 units were removed from the original contracts and the deposits were released back to the Corporation during the year.

During the year ended December 31, 2019, \$74,954 (2018 - \$nil) of carrying costs were incurred due to the Corporation deferring the purchase of inventory units (note 15(a)). These amounts were determined to not be recoverable and have been written off through the statement of operations as a part of inventory carrying costs.

5. Other deposits

As at December 31, 2019, the Corporation has paid \$11,811 (2018- \$45,237) in other deposits related to a security deposit on the Corporation's rental space leased in 2018.

The balance at December 31, 2018 related to a deposit related to the Corporation's rental space leased in 2018 as well as refundable deposits paid to builders on units.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

6. Equity receivables

Equity receivables comprise amounts that customers owe the Corporation for the purchase of housing units through participation in the Corporation's housing programs. The amount recorded is approximately 5% of the original sales value of each unit and is stipulated in each equity loan contract signed by the Corporation and the customer.

For agreements entered into prior to April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the greater of the predetermined minimum repayment amount or a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage.

For agreements entered into after April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the predetermined minimum repayment amount plus a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage and equity loan receivable.

The length of ownership of the unit by the customer is calculated as the period between the closing date and the disposition date. The number of years the customer owns the property dictates the percentage used in the shared participation calculation; as follows:

For agreements entered into prior to April 1, 2018:

Length of ownership of the unit by the customer	% of the shared participation due to the Corporation
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the second anniversary of the closing date	75%
From the second anniversary to the third anniversary of the closing date	50%
From the third anniversary until the disposition of the unit	25%

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

6. Equity receivables (continued)

For agreements entered into subsequent to April 1, 2018:

<u>Length of ownership of the unit by the customer</u>	<u>% of the shared participation due to the Corporation</u>
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the third anniversary of the closing date	75%
From the third anniversary to the fifth anniversary of the closing date	50%
From the fifth anniversary until the disposition of the unit	25%

Equity receivables consist of the following:

	<u>2019</u>	<u>2018</u>
Face value of equity receivable, beginning of year	\$ 8,572,274	\$ 8,838,650
Add: Value of sales in the year	871,761	344,250
Less: Value of loans settled in the year	(735,590)	(610,626)
Face value of equity receivable, end of year	<u>8,708,445</u>	<u>8,572,274</u>
Net recoverable allowance, beginning of year	3,711,213	3,624,438
Less: Net recoverable allowance on loans settled in the year	(323,466)	(228,427)
Add: Write down to net recoverable value on prior year loans	-	250,826
Add: Increase in foreclosure allowance	-	64,376
Net recoverable allowance, end of year	<u>3,387,747</u>	<u>3,711,213</u>
Equity receivable, net, end of year	<u>\$ 5,320,698</u>	<u>\$ 4,861,061</u>

During the year ended December 31, 2019, \$735,590 (2018 - \$610,626) of gross equity receivables, net of previously recorded allowances of \$323,466 (2018 - \$228,427) were settled for cash proceeds of \$415,427 (2018 - \$391,494) resulting in a realized gain of \$3,303 (2018 - \$9,295) which has been included in the statement of operations.

The Corporation holds encumbrances and security over the property to which the equity receivable relates.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

7. Projects under development and construction

Projects under development and construction consist of land and development costs on a multi-family project located in the north-east of Calgary. The balance consists of:

	2019	2018
Opening balance	\$ 5,664,111	\$ -
Cost incurred:		
Land	-	1,474,200
Project costs	7,685,612	4,189,911
Transfers to inventory	(9,037,114)	-
Closing balance	\$ 4,312,609	\$ 5,664,111

8. Credit facilities

Credit facilities outstanding consist of \$5,933,746 (2018 - \$7,357,755) under the revolving operating facility of \$NIL (2018 - \$3,064,598) under the evergreen facility and \$NIL (2018 - \$NIL) under the temporary bridge loan.

a) Revolving operating facility

On October 31, 2019 the Corporation entered into a new agreement, that replaced a previous facility with the same lender, where the Corporation has available a \$10 million revolving operating credit facility with a financial institution that is due February 28, 2020 with an option to extend for an additional 364 days, at the discretion of the lender, but shall not be extended beyond June 30, 2021. During the year, the loan was extended to February 28, 2021. The credit facility is available by way of prime-based loans, guaranteed notes and up to \$3,000,000 of letters of credit.

Interest is payable monthly at an annual rate of prime less 0.75%. As at December 31, 2019 the Corporation had \$6,251,750 (2018 - \$7,878,885) outstanding on the credit facility, comprised of \$5,933,746 (2018 - \$7,357,755) outstanding on the revolving credit facility, and three (2018 – three) letters of credit of \$313,426 (2018 - \$515,645) in favour of The City of Calgary that expire between June 29, 2020 and September 19, 2020 and renew automatically on expiry.

Borrowings under this credit facility are secured by a general security agreement. In addition, The City of Calgary has provided a continuing \$10 million guarantee in exchange for first ranking fixed charge on all the Corporation's present and after acquired property.

b) Evergreen facility

On June 4, 2019, the Corporation entered into a new agreement that replaced a previous facility with the same lender, for a \$10 million evergreen loan facility with a financial institution. Funds are not available under this facility until after May 31, 2020 subject to the annual review. The facility is non-revolving and amounts repaid may not be reborrowed.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

8. Credit facilities (continued)

The evergreen facility is payable in full on demand by the Lender and is to be used for purchase of completed units from various housing projects and developments in the City of Calgary. Advances under this facility will be determined by the Lender. The Lender will finance the amount up to 75% of the purchase price of the eligible units (as defined by the agreement) with a minimum advance of \$500,000 and maximum advance of \$2,500,000.

The balance of all amounts owing under each advance are payable by the end of twelve months from the date of such advance, except the advance relating to Chalet No. 6, which was due on July 31, 2019.

Interest was payable monthly at an annual rate of prime plus 0.75% for funds advanced on the Chalet No. 6 advance and prime plus 0.35% for all other advances and a mandatory repayment of 100% of net sale proceeds of each unit is to be applied as a principal repayment under the facility. The Corporation had the following amounts outstanding:

	December 31, 2019	December 31, 2018
	Amount	Amount
Chalet No. 6	\$ -	\$ 564,598
Buffalo	-	2,500,000
	<u>\$ -</u>	<u>\$ 3,064,598</u>

Borrowings under this facility are secured by a \$10 million first fixed charge over all eligible units (as defined by the agreement financed under this facility. The City of Calgary subordinates and postpones security interest (see Note 9(a)) as it relates to any eligible units financed under this facility. The book value of the assets secured under this facility is \$nil (2018 - \$3,995,152).

The Corporation is required to maintain a total debt-to-equity ratio of less than 2.50:1 relating to this facility. At December 31, 2019, the Corporation is in compliance with this covenant.

This credit facility is scheduled for its next annual review on May 31, 2020, but may be set at an earlier or later date at the sole discretion of the Lender.

c) Temporary bridge loan

On June 14, 2019 the Corporation entered into an agreement for a temporary bridge loan facility with a financial institution that could not exceed the lesser of \$2,000,000 and 50% of the sales price of unconditional sales contracts relating to the Corporation's multi-family project being constructed (note 7). The facility was only available by way of one advance that was made prior to June 30, 2019. Amounts not drawn at that date were cancelled and no longer available to the Corporation.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

8. Credit facilities (continued)

The temporary bridge loan was payable in full on demand by the Lender. Interest was payable monthly at an annual rate of prime plus 0.70% and a mandatory repayment of the balance of all amounts owing under the facility to be repaid with 100% of the net sale proceeds of each unit from the multi-family project, with the balance of all amounts owing under the facility being due and payable by August 15, 2019.

Borrowings under this facility were secured by an irrevocable assignment of sales proceeds up to a maximum of \$2,000,000 with respect to the eligible units financed under the facility. The City of Calgary subordinates and postponed security interest (see Note 9) as it related to any eligible units financed under this facility.

During the year ended December 31, 2019, all amounts drawn were fully repaid and the facility was cancelled by the Lender.

9. Mortgages payable

The Corporation and the City entered into a Mortgage and a purchase and sale agreement on April 7, 2011, whereby the Corporation received the deemed principal sum of \$5,188,312 by advancement of the transfer of four parcels of land (the "Lands") by the City to the Corporation. The maturity date of the Mortgage is the earlier of (i) August 3, 2021, (ii) in the event the Corporation sells any parcel of land, then a portion of the principal sum allocated to the sold parcel as outlined in the Mortgage agreement or (iii) in the event the Corporation sells the Lands in a single transaction, then on the date the Corporation receives the net proceeds of the sale. The balance owing on the mortgage is \$3,278,804 as at December 31, 2019 (2018 - \$3,278,804). The book value of the properties secured by the mortgage is \$4,625,904 (2018 - \$4,643,809). There is no interest on the principal sum provided the Corporation is not in default of any obligations under the Mortgage. Should the Corporation be in default, the mortgage becomes immediately due and payable and interest will begin to be charged at a rate that is the floating annual prime rate as established by the Royal Bank of Canada and is payable on the outstanding principal sum from the date of event of default to the maturity date.

The Corporation is required to maintain an interest coverage ratio of at least 1.25:1 and a total debt ratio of no greater than 3:1. The Corporation met the total debt ratio but was in default on the interest coverage ratio at December 31, 2019 and 2018. On November 5, 2019, the City of Calgary provided a waiver for the breach of the covenant and any associated enforcement to its right to remedy as at December 31, 2018. On March 19, 2020, the Corporation amended its credit agreement with the City of Calgary, to remove the interest coverage ratio, effective November 18, 2019.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

10. Pension plan

The Corporation provides a contributory pension plan for qualifying employees through participation in the Local Authorities Pension Plan ("LAPP"). LAPP is a multi-employer defined benefit pension plan offered to various unrelated employers throughout Alberta. The responsibility for high level strategic guidance of the pension plan is held by the LAPP Board of Directors. The pension plan is administered by the Board of Trustees who sets contribution rates and investment policy. The plan provides a defined benefit pension based on the employee's earnings and length of service.

The most recent actuarial report of the plan discloses a funding surplus. LAPP is not able to provide information which reflects AHCC's specific share of the defined benefit obligation or plan assets that would enable the Corporation to account for the plan as a defined benefit plan. Therefore, the Corporation has accounted for its participation in the plan using defined contribution accounting.

During the year ended December 31, 2019, the expense funded and recognized by the Corporation was \$79,845 (2018 - \$66,671), which has been included in salaries and benefits on the statement of operations.

11. Tangible capital assets

	December 31, 2019		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computers	68,546	54,580	13,966
Office equipment and furniture	62,132	55,431	6,701
Leasehold improvements	98,482	94,756	3,726
Total tangible capital assets	229,160	204,767	24,393
	December 31, 2018		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computers	67,118	48,333	18,785
Office equipment and furniture	62,132	51,994	10,138
Leasehold improvements	98,482	90,933	7,549
Total tangible capital assets	227,732	191,260	36,472

Attainable Homes Calgary Corporation**Notes to the Financial Statements**

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

12. Gross margin

Gross margin consists of the following:

	2019			2018
	Developed Inventory \$	Purchased Inventory \$	Agency Sales \$	Total \$
Sales	7,672,333	13,100,535	155,688	20,928,556
Cost of sales	7,553,246	12,865,817	-	20,419,063
	119,087	234,718	155,688	509,493

13. Share capital

The Corporation is authorized to issue an unlimited number of common shares. The shares can be issued only to the City, its agent or successor and are not otherwise transferable. As at December 31, 2019 and December 31, 2018 one share was issued and outstanding.

14. Accumulated operating surplus

Accumulated operating surplus consists of:

	<u>2019</u>	<u>2018</u>
Operating reserve	\$ 1,000,000	\$ 1,000,000
Unrestricted surplus	<u>10,588,070</u>	<u>12,738,220</u>
	<u>\$ 11,588,070</u>	<u>\$ 13,738,220</u>

During the year ended December 31, 2016, the Board of Directors of the Corporation approved a transfer of \$1,000,000 to the operating reserve. The Corporation funded 50% of the reserve in 2016, which is kept in a separate bank account. The remaining reserve will be funded through future operating surpluses.

During the year ended December 31, 2019, the Corporation accessed the operating reserve, with Board approval, and the reserve was replenished during the year upon the closing of sales from its multi-family project.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

15. Contractual obligations

At December 31, 2019 the Corporation has the following contractual obligations:

- a) The Corporation has entered into contracts with builders that require the Corporation to buy inventory units from the builders if the units are not sold within specific time limits.

The contractual obligations related to these contracts are as follows:

- (i) During the year ended December 31, 2018, the Corporation entered into an agreement to purchase up to 36 inventory units for \$8,665,930, less deposits of \$433,297 paid, to be purchased in two tranches, beginning in March 2019. The Corporation shall not be required to complete more than five closings per calendar month, unless the Corporation determines in its sole discretion to increase such amounts.

In the case that the Corporation has not sold a Unit by the applicable Unit Closing Date, the Corporation may choose to reimburse the builder for the carrying costs for the units, rather than closing on them as the Corporation may choose in its sole discretion.

During the year ended December 31, 2019 the Corporation purchased 10 units and elected to defer purchasing 26 units and incurred carrying costs of \$73,908 (2018 - \$nil) on the deferred units. These carrying costs are included in inventory carrying costs on the statement of operations.

Once the Corporation has achieved eighteen unconditional sales, an appraisal will be conducted on one unit type to determine if values have increased or decreased. In the case that values have increased to a point where the Unit value has increased by \$7,500 or greater (exclusive of net GST), then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 89% of the updated appraisal value, but in no event shall the Unit Purchase Price for unit increase by greater than 10%, for the remaining 18 units. In the case of a decrease in value, a similar adjustment will be made to ensure the Unit Purchase Price remains 89% of the market value on remaining Units.

As at December 31, 2019, the Corporation is committed to purchase 26 remaining units for \$6,538,261 less deposits of \$311,812 previously paid for a total commitment of \$6,226,449. Subsequent to year end, 8 units were purchased for \$2,009,674 less the deposits of \$96,165, previously paid.

- (ii) During the year ended December 31, 2018, the Corporation entered into an agreement to purchase up to 24 inventory units for \$6,551,738 less deposits of \$327,587. If the Corporation does not have a firm sale in place, once an occupancy permit has been issued by the City of Calgary on a substantially completed unit, the Corporation will close the purchase within 30 days thereafter up to a maximum of 2 units per month starting no sooner than May 1, 2019.

In lieu of closing on a unit, the Corporation, at its own discretion, will pay the builder's carrying costs for the said unit until a firm sale with the Corporation's purchaser occurs.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

15. Contractual obligations (continued)

During the year ended December 31, 2019 the Corporation purchased 5 units and elected to defer purchasing 7 units that had received occupancy permits and incurred carrying costs of \$1,046 (2018 - \$nil) on the deferred units. These carrying costs are included in inventory carrying costs on the statement of operations. 5 units have yet to receive occupancy permits.

During the year ended December 31, 2019 amendments were made to Purchase Agreements for price reductions on units committed to as well as amending to remove 7 units originally agreed to be purchased. The deposits on these 7 units were released back to the Corporation during the year (note 4).

As at December 31, 2019, the Corporation is committed to purchase 12 remaining units for \$2,952,590 less deposits of \$206,993 previously paid for a total commitment of \$2,745,597. Subsequent to year end, the Corporation closed on 6 units, satisfying \$1,380,292 of the committed amount. Of the 12 remaining units at December 31, 2019, 1 unit is under addendum to release back to the builder upon its firm sale by the builder. Once released, the deposit of \$12,750 will be released to the Corporation and the obligation to purchase will be reduced by \$218,944.

- (b) During the year ended December 31, 2019, the Corporation entered into an agreement with Enmax, a wholly owned subsidiary of the City of Calgary, for a commercial solar deferred payment purchase agreement, relating to the purchase and installation of solar panels for the multi-family dwelling currently under development (note 7). The total purchase price associated with this agreement is \$915,200 plus GST. Of this, \$288,000 is due on or before the Commercial Operation Date, which will be as each building's solar panels are installed, inspected and ready to be activated. The remaining amount is payable as a monthly amount of \$4,331.33 for the next 15 years. Upon the formation of a condominium corporation this contract will be assigned to the condominium corporation and the Corporation will be relieved of its commitment at that time. During the year ended December 31, 2019, the Corporation incurred \$72,000 of the \$288,000 initial fee which has been included in projects under development and construction (note 7), a portion of which has been transferred to inventory (note 3) upon completion of the applicable buildings.

- (c) The Corporation has a lease commitment for its office lease that ends on December 31, 2023 as follows:

2020	13,368
2021	22,280
2022	26,736
2023	<u>31,192</u>
	<u>\$ 93,576</u>

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

16. Financial instruments

Financial instruments consist of cash, accounts receivables, equity receivable, other deposits, accounts payable, credit facilities, mortgages payable and customer deposits. The carrying value of the cash, accounts receivable, other deposits, accounts payable, and customer deposits approximates their fair value due to the short term nature of these financial instruments. The carrying value of equity receivables approximate their fair value due to the loans being carried at their minimum repayments. The carrying value of the credit facilities approximates fair value due to the facilities bearing interest at market rates. The estimated fair value of the mortgages payable is \$3,173,645 (2018 – \$3,076,630). Calculation of the estimated fair value of the mortgages payable is based on lending rates published at December 31, 2019 for loans with comparable maturities from the City's primary lender, the Alberta Capital Finance Authority ("ACFA").

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk to the extent that credit facilities bear interest at floating interest rates. Interest rate risk is limited for mortgages payable as interest is only payable in the event of default.

b) Credit risk

Credit risk is the risk that one party's financial instruments will cause a financial loss for the other party by failing to discharge an obligation. The financial instruments that potentially subject the Corporation to a significant concentration of credit risk consist primarily of cash, accounts receivable, equity receivable and other deposits.

The Corporation mitigates its exposure to credit loss by placing its cash with major financial institutions and in lawyers' trust accounts. Accounts receivable primarily relates to grant revenue that was received subsequent to year end and other deposits is a refundable deposit due from the Corporation's landlord. Credit risk associated with equity receivables are mitigated by encumbrances and security over the property to which they relate.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's financial liabilities consist of accounts payable, credit facilities, mortgages payable and customer deposits. As at December 31, 2019, the Corporation has available \$3,748,250 relating to its revolving credit facility, and \$nil relating to its term loan facility (Note 8). The Corporation anticipates that it will be able to repay all financial liabilities as they come due so long as it continues to receive support from its lenders (note 1).

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

16. Financial instruments (continued)

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's financial instruments are not subject to substantial market risk.

17. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.

Attainable Homes Calgary Corporation

Audit Findings Report
For the Year Ended December 31, 2019





RSM Alberta LLP
777 8 Avenue SW
Suite 1400
Calgary, AB T2P 3R5
T +1403 298 1500
F +1403 298 5814

April 27, 2020

The Audit and Accountability Committee
Attainable Homes Calgary Corporation
610, 940 - 6th Avenue S.W
Calgary, AB
T2P 3T1
Dear Sirs:

Re: Audit of the financial statements of Attainable Homes Calgary Corporation

This report summarizes certain key audit findings and responses to assessed audit risks which we believe to be of interest to assist the Audit and Accountability Committee in discharging their responsibilities in connection with the audited financial statements of Attainable Homes Calgary Corporation (the "Corporation") for the year ended December 31, 2019.

We would like to express our appreciation for the cooperation we received from the officers and employees of the Corporation with whom we worked during our audit. We look forward to meeting with the Audit and Accountability Committee to discuss the content of this report and answering any questions you may have.

Yours very truly,

RSM Alberta LLP

per: Terry Booth, Partner

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

TABLE OF CONTENTS

Status of the audit	1
Significant audit findings	1
Misstatements and adjustments	7
Other findings and recommendations	7

APPENDICES

Other required communication	A
Independent auditor's report	B
Management representation letter	C
Summary of adjustments	D
Summary of uncorrected misstatements	E
Draft financial statements	F

The Audit and Accountability Committee
Attainable Homes Calgary Corporation
April 27, 2020
Page 1

Status of the audit

We have substantially completed our audit of the financial statements of the Corporation for the year ended December 31, 2019.

Outstanding items

The following items require completion prior to issuing our auditor's report:

- receipt of management representation letter (Appendix C);
- subsequent events review to audit report date;
- receipt of updated legal enquiry response; and
- approval of the financial statements by the Board of Directors.

Independent auditor's report

Our draft independent auditor's report is attached (Appendix B). We expect that our independent auditor's report will contain a "*Material Uncertainty Related to Going Concern*" paragraph drawing attention to the Corporation's going concern disclosure. Our report will not be qualified with respect to this matter.

Significant audit findings

Materiality

Final overall materiality was \$460,000 based on 0% of net assets. This was changed from overall planning materiality of \$596,000, as communicated in our Audit Services Plan upon receipt of final numbers.

Accounting policies

Management is responsible for selecting and applying appropriate accounting policies. The Audit and Accountability Committee is responsible to review accounting policies adopted by the Corporation and where alternative policies are available, determine the most appropriate policies to be adopted in the circumstances. If the Audit and Accountability Committee believes that the adoption of or change in accounting policies may produce inappropriate or misleading financial reporting, this concern must be discussed with management and us.

Our views on the qualitative aspects of accounting practices used in the Corporation's financial reporting are intended to assist the Audit and Accountability Committee in its review of the financial statements. Policies affecting the understandability, relevance, reliability and comparability of the financial statements are:

Changes in significant accounting policies, including adoption of new standards.

New accounting policies adopted during the year are disclosed in note 2(f) to the financial statements and there has been no material impact as a result of adopting the new policies.

Accounting policies unique to the industry, or relate to controversial or emerging areas.	<p>The following policy is unique to the industry:</p> <ul style="list-style-type: none"> The Corporation uses the net yield method when allocating costs within its multi-family project, which is an accounting policy that is unique to the real estate industry and not addressed in the PSAS Handbook, however, is in compliance with Accounting Standards for Private Entities.
Existence of alternative policies and methods.	No significant items to report.
Effect of timing of occurrence and recognition of transactions relating to when accounting policies are adopted.	No significant items to report.

Conclusion

We reviewed the significant accounting policies selected and applied by management and in our judgment we believe that the accounting policies are, in all material respects, acceptable under Canadian public sector accounting standards and are appropriate to the particular circumstances of the Corporation.

Accounting estimates, unusual transactions and financial statement disclosures

Our risk-based audit approach focused on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriate level.

The following is a summary of key issues and significant risks of material misstatement, whether due to fraud or error, encompassing areas of estimates and related judgments and assumptions, significant or unusual transactions and sensitive financial statement disclosures, identified during the audit:

	Valuation of Inventory
Issue/risk area	Valuation of inventory, specifically homes (units), due to the nature of units held, the length of time units have been held, negative margins being realized on the sale of long standing units, and current economic conditions, continues to be an area of significant risk. Inventory is required to be carried at the lower of cost and net realizable value.
Management's approach	The Corporation tested net recoverable value of units held at December 31, 2019 and concluded that, based on appraisals and management's estimates of net realizable value, an impairment charge of \$375,180 was required.
Our response	We have reviewed the inputs, techniques and assumptions used by management, including comparing to recent appraisals and recent sales of comparable units in the developments, and are in agreement with management's assessment of the valuation of inventory units held at December 31, 2019.

	Projects Under Development and Construction
Issue/risk area	<p>Projects under development and construction are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the project under development and complete construction.</p> <p>Costs capitalized to projects under development and construction include all direct costs relating to the project's carrying costs including interest on debt used to finance project acquisitions, insurance, property taxes and land acquisition costs. Corporate administration overhead is not capitalized.</p> <p>The costs of the properties are allocated to each building using specific identification and further to each unit of a project based on projected revenues in the building. The cost of a unit is allocated using the net yield method on the basis of the estimated total cost of the project prorated by the anticipated selling price of the unit over the anticipated selling price of the entire project.</p> <p>As buildings within the project are complete, the construction costs specific to the building as well as a portion of land costs, which are allocated on a pro-rata basis, and estimated completion costs are transferred to inventory. The total estimated costs relating to the sold unit is recorded as a liability once the unit has sold. The unexpended portion of these costs is shown as a provision to complete construction in the statement of financial position. Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and inventory. Independent contractors and management calculate these estimates, however, until the building is completed, these costs are subject to measurement uncertainty.</p> <p>Given the high amount of estimation involved in this model and current real estate market conditions the valuation of projects under development, the valuation of the finished units and the recognition of costs recognized on the sale of these units have been identified as a significant risk area.</p>
Management's approach	<p>Management has estimated project revenues and costs related to the Martindale project and have estimated a gross margin on the project of 1.63%.</p>

Our response	<p>We have reviewed project profitability of the Martindale project and Management's assumptions. This included reviewing and assessing expected sales by comparing to sales recognized during the year or subsequent to year end, as well as firm sales agreements signed. We reviewed and assessed cost estimates and budgets by comparing estimated construction costs to those incurred to date as well as comparing to the Avalon Industries Ltd. (independent third party contractor) budget. We reviewed other soft costs and compared them to third party signed Contracts. Where soft or general costs have been incurred to date and management is not anticipating any further costs, we reviewed the type of cost to determine if it was reasonable that no further costs will be incurred. Based on the work completed, no issues were noted.</p>
	Revenue Recognition & Equity Receivables - Initial Measurement
Issue/risk area	<p>Equity loans are classified as loans receivable under section 3050 of the Public Section Accounting Standards. Under this standard loans receivables should be initially reported at cost and valuation allowances should be used to reflect loans receivable at the lower of cost and net recoverable value.</p> <p>Further to this, under Section 3400, and as per the Corporation's revenue recognition policy, revenue from the sale of a housing unit is recognized upon the transfer of title and when collectability is reasonably assured.</p> <p>Given current real estate market conditions, there continues to be indicators that the growth rates in the Calgary market do not support revenue being recognized beyond the minimum repayments, being 60% of the equity receivable face value for loans signed prior to April 1, 2018, as collection of the full 100% cannot be reasonably assured. Loans signed after April 1, 2018 were written to ensure 100% of the face value is to be repaid regardless of potential depreciation of the home to which it relates.</p>
Management's approach	<p>As all equity loans signed during the year ended December 31, 2019 have a minimum repayment equal to their face value, management has determined that on initial recognition the amount of collection can be determined and is reasonably assured.</p>
Our response	<p>We have reviewed management's assessment of the occurrence of revenue as it relates to their assessment of determining the amount that can be considered reasonably collectable and are in agreement.</p>

	Valuation of Equity Receivables
Issue/risk area	<p>Equity loans are classified as loans receivable under section 3050 of the Public Section Accounting Standards. Under this standard loans receivables should be initially reported at cost and valuation allowances should be used to reflect loans receivable at the lower of cost and net recoverable value.</p> <p>Due to the significant assumptions used in the calculations to assess net recoverable value, as well as current economic conditions, there continues to be indicators that equity receivables may not be fully recoverable. In addition, over the past few years, the Corporation has realized losses on equity receivables as a result of foreclosures.</p>
Management's approach	<p>Net recoverable value at December 31, 2019, as determined by management, was the minimum repayment on all equity receivables and that the allowance previously recorded is appropriate, and does not need to be increased nor reversed.</p> <p>Significant assumptions used in these allowance calculations include expected future market pricing and appreciation of units to be resold, expected timing of unit sales and estimated foreclosure rates. Changes to these assumptions can have significant impact on the calculation of the valuation on equity receivables.</p>
Our response	<p>We have reviewed management's assessment of the collectability of equity receivables, their estimation processes and calculations and conclude that they are reasonable and the allowance recorded in the statement of financial position as at December 31, 2019 is appropriate.</p>
	Occurrence of Revenue
Issue/risk area	<p>Occurrence of revenue, due to the nature and timing of the recording of revenue is considered a significant risk.</p>
Management's approach	<p>Revenue is recorded on possession of units.</p>
Our response	<p>We agreed a sample of amounts recorded in revenue to purchase and sale agreements, final statements of adjustments, and certificates of title and agree that the criteria for the recognition of revenue has been met. There were no issues identified.</p>

	Going Concern
Issue/risk area	<p>The financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due.</p> <p>The Corporation incurred a loss of \$2,150,150 for the year ended December 31, 2019 and had cash flows from operations of \$4,580,659, which included \$1,351,502 of costs related to the development and construction of a townhouse project. The Corporation has also recorded inventory write downs to net realizable value and allowances on its equity loans to reduce them to their minimum repayments over the last three and two years, respectively.</p>
Management's approach	<p>Management has forecasted 2020 cash flows based on expected revenues, substantially related to the Martindale project, as well as anticipated operating expenditures and financing draws and repayments. Based on this forecast, management has determined that the Corporation will have the ability to continue as a going concern, provided that it has the continued support of its lenders.</p>
Our response	<p>We have reviewed management's forecast and are in agreement that although material uncertainty exists that may cast significant doubt on the Corporation's ability to continue as a going concern, it is appropriate that the financial statements be presented on a going concern basis.</p>
	Management Override of Controls
Issue/risk area	<p>Management override of controls is, by definition, a significant risk.</p>
Our response	<p>During the course of our audit, we designed and performed audit procedures to respond to the risks of management override of controls. Our procedures included assessing appropriateness of general journal entries and other adjustments on a test basis, reviewing accounting estimates for biases and evaluating business rationale for transactions outside the normal course of business. These procedures did not reveal any evidence of management override of controls and, as such, no additional audit procedures were performed.</p>

Conclusion

We reviewed all significant accounting estimates and agree that they are, in all material respects, free of possible management bias and of material misstatement. The audit procedures performed in the areas noted above were consistent with those set out in our Audit Services Plan. The accounting treatment of the items noted above and related disclosures are appropriate and in accordance with Canadian public sector accounting standards. We were able to obtain sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriate low level.

The Audit and Accountability Committee
Attainable Homes Calgary Corporation
April 27, 2020
Page 7

Misstatements and adjustments

Adjustments

During our audit, we identified accounting differences that required adjustment. These differences were adjusted by management after discussion with us (Appendix D). In addition, management incorporated various changes to the financial statement disclosure and presentation as recommended by us.

Likely aggregate misstatements

During our audit, we aggregated uncorrected financial statement misstatements. Management deemed the effects of these misstatements to be immaterial, both individually and in the aggregate, to the financial statements. Management has not corrected these misstatements. We are required to request that the Audit and Accountability Committee consider adjusting the financial statements for these misstatements although we acknowledge that the amounts are immaterial (Appendix E).

Appendix A

Other required communication

Illegal Acts, Fraud, Intentional Misstatements and Errors	Testing during our audit did not reveal any illegal, improper or questionable payments or acts, nor any acts committed with the intent to deceive, involving either misappropriation of assets or misrepresentation of financial information.
Related Party Transactions	We conducted tests and procedures to identify related parties and transactions. Our audit did not reveal any related parties or significant related party transactions that were not disclosed to us by management, nor did it reveal any significant related party transactions which give rise to suspected fraud. There has been no disagreement between management and ourselves regarding the accounting for and disclosure of related party transactions.
Deficiencies in Internal Controls	A financial statement audit is not designed to and we are not providing any assurance on internal controls. During our audit, we identified the following significant deficiencies in internal controls:
	<ul style="list-style-type: none"> • Segregation of Duties <p>The Corporation has a limited number of individuals performing accounting and control functions in addition to having access to Corporation assets. While lack of segregation of duties is common in entities of similar size, we recommend that whenever practical, duties be segregated to help ensure that errors or misappropriations are prevented or detected by management to safeguard Corporation assets. If segregation is not practical or cost effective, senior management should supervise these duties and follow up on any significant or unusual transactions.</p>

Appendix A

Other required communication (cont'd)

Deficiencies in Internal Controls (cont'd)	<ul style="list-style-type: none"> Journal Entries <p>It is the policy of the Corporation that all journal entries be reviewed by the Director of Finance as a part of the quarterly working paper preparation and that the President and CEO perform a quarterly review of financial statements, looking at specifically identified items. The policy further specifies that any losses or write offs be evidenced with signature and date on the journal entry that contains journal entry support, as well as entries above \$500,000 being reviewed and signed by the President & CEO.</p> <p>During our review of journal entries, we noted that journal entries are initiated and recorded by one individual, with no evidence of review or approval, although we acknowledge that appropriate support was attached to the journal entry in all items tested. We also acknowledge that mitigating procedures have been implemented to assess the reasonableness of the transactions that have been recorded during the period, including the review of financial data by the Director of Finance and the quarterly financial statements by the President & CEO, however there was no evidence of this review being completed. Specifically, there was no evidence of losses or write offs being reviewed by the President & CEO.</p> <p>As journal entries could be used to either i) assist in the concealment of the misappropriation of funds or ii) alter intentionally, or through human error, reported financial results, we recommend that journal entries be approved by a second individual and the accuracy of the entry being recorded be checked subsequent to the entry being posted to ensure accuracy of data entry.</p>
Disagreements with Management	During our audit, we did not have any significant disagreements with management.
Consultations with Other Accountants	We are not aware of any consultations that have taken place with other accountants.
Cooperation of Management	We received full cooperation of management and other personnel during our audit and we had full and unrestricted access to all records and personnel required to complete our audit. We encountered no significant difficulties during our audit that should be brought to the attention of the Audit and Accountability Committee.

Appendix B

Independent auditor's report



Independent Auditor's Report

To the Shareholder of Attainable Homes Calgary Corporation

Opinion

We have audited the financial statements of Attainable Homes Calgary Corporation (the "Corporation"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2019, and the results of its operations, cash flows and changes in net assets for the year ended December 31, 2019 in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates the Corporation incurred a net loss for the year ended December 31, 2019 of \$2,150,150 and has experienced asset impairments. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the 2019 Annual Report.

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The 2019 Annual Report is expected to be made available to us after the date to auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April *, 2020

Appendix C

Management representation letter



Attainable Homes Calgary Corporation

610, 940 - 6th Avenue S.W
Calgary, AB
T2P 3T1

April (•), 2020

RSM Alberta LLP
Chartered Professional Accountants
777 8 Avenue SW
Suite 1400
Calgary, Alberta
T2P 3R5

Dear Sir:

We are providing this letter in connection with your audit of the financial statements of Attainable Homes Calgary Corporation (the "Corporation") as at December 31, 2019 and for the year then ended, for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of Attainable Homes Calgary Corporation in accordance with Canadian public sector accounting standards.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with Canadian public sector accounting standards and for the design and implementation of internal control to prevent and detect fraud and error. We have assessed the risk that the financial statements may be materially misstated as a result of fraud, and have determined such risk to be low. Further, we acknowledge that your examination was planned and conducted in accordance with Canadian generally accepted auditing standards so as to enable you to express an opinion on the financial statements. We understand that while your work includes an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, it is not designed to identify, nor can it necessarily be expected to disclose fraud, shortages, errors and other irregularities, should any exist.

Certain representations in this letter are described as being limited to matters that are material. An item is considered material, regardless of its monetary value, if it is probable that its omission from or misstatement in the financial statements would influence the decision of a reasonable person relying on the financial statements.

We confirm, to the best of our knowledge and belief, as of April (•), 2020, the following representations were made to you during your audit.

Financial statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated November 4, 2019, for the preparation of the financial statements in accordance with Canadian public sector accounting standards; in particular, the financial statements are fairly presented in accordance therewith.
2. The Corporation's significant accounting policies are disclosed in the financial statements and:
 - (a) there have been no changes in the Corporation's accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.
 - (b) the accounting policies selected and applied are appropriate in the circumstances.
 - (c) significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable.
3. Significant matters have not arisen that would require a restatement of the comparative financial statements.

4. The financial statements, which have been prepared on a going concern basis, assume that the Corporation will be able to meet its commitments, continue its operations, realize its assets and discharge its liabilities in the normal course of business. The financial statements do not reflect adjustments to the carrying values of assets and liabilities that may be necessary should the Corporation be unable to achieve sufficient cash flows to continue as a going concern. Such adjustments could be material. The Corporation's ability to continue on as a going concern is dependent on its ability to achieve cash flows from operations and arrange additional financing. We have disclosed to you the Corporation's future plans in relation to its going concern assessment and the feasibility of these plans. There is no assurance that this financing or cash flows from operations will be available to the Corporation and, accordingly, there is doubt about the Corporation's ability to continue as a going concern.

Completeness of information

5. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of this audit;
 - unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
 - all minutes of the meetings of shareholders, directors and committees of directors, or summaries of recent meetings for which minutes have not yet been prepared.
6. The minute books of the Corporation are a complete record of all meetings and resolutions of the Corporation throughout the years and to the present date.
7. All transactions have been recorded in the accounting records and are reflected in the financial statements.
8. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory agencies, applicable securities commissions or governmental authorities, including their financial reporting requirements.
9. We are unaware of any instances of non-compliance or suspected non-compliance with laws or regulations the effects of which should be considered when preparing financial statements.
10. We have identified to you all known related parties and all known related party relationships and transactions, including guarantees, non-monetary transactions and transactions for no consideration.
11. We have communicated to you all deficiencies in internal control of which management is aware.

Fraud and error

12. We have no knowledge of fraud or suspected fraud affecting the Corporation involving management; employees who have significant roles in internal control; or others, where the fraud could have a non-trivial effect on the financial statements.
13. We have no knowledge of any allegations of fraud or suspected fraud affecting the Corporation's financial statements communicated by employees, former employees, analysts, regulators or others.
14. We believe that the effects of the uncorrected financial statement misstatements summarized in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Recognition, measurement and disclosure

15. We believe that the significant assumptions used in arriving at the fair values of financial instruments as measured and disclosed in the financial statements are reasonable and appropriate in the circumstances.
16. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
17. All related party relationships and transactions have been appropriately measured and disclosed in the financial statements.
18. We are aware of the environmental laws and regulations that impact on our Corporation and we are in compliance. There are no known environmental liabilities that have not been accrued for or disclosed in the financial statements.
19. The nature of all material measurement uncertainties has been appropriately disclosed in the financial statements, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the financial statements.
20. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel. Any such items have been accounted for and disclosed in accordance with Canadian public sector accounting standards.
21. We confirm that there are no derivative or off-balance sheet financial instruments held at the year then ended December 31, 2019.
22. All liabilities, both actual and contingent, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
23. The Corporation has satisfactory title to, or control over, all assets, and there are no liens or encumbrances on the Corporation's assets or assets pledged as collateral that are not disclosed in the notes to the financial statements.
24. We have disclosed to you, that the Corporation has not complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt. The financial statements include appropriate disclosures in this regard.
25. We confirm the appropriateness of accounting policies and the application thereof for complex areas of accounting and areas involving management's judgment and estimates, for example:
 - estimates relating to the valuation of inventory;
 - estimates relating to the valuation of land and site development costs;
 - the initial set up lot inventory, including all costs and estimates for both internal and external sources used in calculating the total development and construction cost of projects under development and construction;
 - estimates relating to the valuation of projects under development and construction;
 - estimates relating to the occurrence of revenue relating to the initial measurement of equity receivables;
 - estimates relating to the valuation and collection of equity receivables;
 - the completeness of accounts payable and accrued liabilities;
 - the completeness of provision to complete construction; and
 - the appropriateness of the going concern assumption

26. There have been no events subsequent to the statement of financial position date up to the date hereof that would require recognition or disclosure in the financial statements other than that disclosed in the notes to the financial statements. Further, there have been no events subsequent to the date of the comparative financial statements that would require adjustment of those financial statements and the related notes.
27. We agree with the findings of Avison Young Valuation & Advisory Services (the "specialist") in evaluating the Corporation's inventory and land and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to the specialist with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that could reasonably be thought to impact the independence or objectivity of the specialist.
28. We will provide a final version of the 2019 Annual Report to you when available, and prior to its issuance, such that all required audit procedures can be completed.
29. The terms of your engagement, as set out in your letter to us dated November 4, 2019, are still in effect and we agree with the terms as set out.

Journal entry approval

30. We approve of and acknowledge responsibility for the journal entries summarized in the accompanying schedule.

Yours very truly,

Jaydan Tait, President & CEO

Jaycee Ho, Interim Director of Finance

/cdm

Appendix D

Summary of adjustments



Attainable Homes Calgary Corpora

Year End: December 31, 2019

Journal Entries: Adjusting

Date: 1/01/19 To 12/31/19

Prepared by SR 2/22/20	In-Chrg Review	Manager Review	Snr Mgr Review CM 2/10/20
Partner Review TB 2/15/20	EQCR Manager	EQCR Partner	Consult

Number	Date	Name	Account No	Reference	Debit	Credit
RSM01	12/31/19	Inventory - Houses	1490	5320		375,180.31
RSM01	12/31/19	Loss on Impairment of Assets	5009	5320	375,180.31	
		To record inventory write-down to lower of Cost and Net Realizable Value				
RSM02	12/31/19	Inventory - Houses	1490	5340 / 5320		20,424.65
RSM02	12/31/19	Work-In-Progress - Construction:1501 WIP Esti 1500-1501		5340 / 5320	13,699.73	
RSM02	12/31/19	Purchase/Cost of Materials:COGS - Reach Mart 8319-8355		5340 / 5320	6,724.92	
		To adjust ending inventory on Reach Martindale Units				
RSM03	12/31/19	Provision to Complete	2629	5340	949,983.31	
RSM03	12/31/19	Work-In-Progress - Construction:1501 WIP Esti 1500-1501		5340		949,983.31
		To adjust provision to complete				
RSM04	12/31/19	Equity Loan Write-Off:4206 Equity Loan W/O BI 4200		5637	5,650.00	
RSM04	12/31/19	Equity Loan:Equity Loan - Cranston Apt 1699-1704		5637		10,988.84
RSM04	12/31/19	Equity Loan:Equity Loan - Sky View 5000 1699-1707		5637		12,700.00
RSM04	12/31/19	Equity Loan:Equity Loan - BH 2 1699-1709		5637		9,737.00
RSM04	12/31/19	Equity Loan:Equity Loan - Skymill 2000 1699-1714		5637		9,950.00
RSM04	12/31/19	Equity Loan:Equity G/L Receivable Disc 1699-1729		5637	17,725.84	
RSM04	12/31/19	Equity Loan Write-Off - Cr Apt 4200-4204		5637	6,000.00	
RSM04	12/31/19	Equity Loan Write-Off:Equity Loan Write-Off SV 4200-4207		5637	7,500.00	
RSM04	12/31/19	Equity Loan Write-Off - SM2 4200-4214		5637	6,500.00	
		To record 2019 foreclosures				
RSM05	12/31/19	Equity Loan:Equity G/L Receivable Disc 1699-1729		5632-1	106,383.64	
RSM05	12/31/19	Sales:Sales - Redstone 4000-4014		5632-1		20,942.64
RSM05	12/31/19	Sales - Arbours II, III 4000-4018		5632-1		17,205.00
RSM05	12/31/19	Sales:Sales - Orchard Sky 4000-4022		5632-1		2,495.00
RSM05	12/31/19	Sales:Sales - Varsity 4000-4023		5632-1		5,750.00
RSM05	12/31/19	Sales:Sales - Buffalo 4000-4029		5632-1		58,151.00
RSM05	12/31/19	Sales:Sales - Sunalta 4000-4030		5632-1		1,840.00
		To reverse Day #1 write-downs for contracts written under New Loan Agreement (Min Repayment = Face Value of Loan) - YE18 ELs				
RSM06	12/31/19	Equity Loan:Equity G/L Receivable Disc 1699-1729		5638	306,154.02	
RSM06	12/31/19	Sales:Sales - Redstone 4000-4014		5638		9,376.00
RSM06	12/31/19	Sales:Sales - Orchard Sky 4000-4022		5638		4,798.00
RSM06	12/31/19	Sales:Sales - Varsity 4000-4023		5638		9,598.00
RSM06	12/31/19	Sales:Sales - Chalet No.6 4000-4024		5638		4,934.50
RSM06	12/31/19	Sales:Sales - Buffalo 4000-4029		5638		63,776.00
RSM06	12/31/19	Sales:Sales - Sunalta 4000-4030		5638		3,620.00
RSM06	12/31/19	Sales:Sales - Sunalta 4000-4030		5638		5,196.00
RSM06	12/31/19	Sales:Sales - Ashbury 4000-4032		5638		2,698.00
RSM06	12/31/19	Sales:Sales - Laurels 4000-4034		5638		4,558.00
RSM06	12/31/19	Sales:Sales - Sage Meadows 4000-4036		5638		19,975.28
RSM06	12/31/19	Sales:Sales - Reach Martindale Market 4000-4037		5638		90,175.28

Attainable Homes Calgary Corpora

Year End: December 31, 2019

Journal Entries: Adjusting

Date: 1/01/19 To 12/31/19

Prepared by SR 2/22/20	In-Chrg Review	Manager Review	Snr Mgr Review CM 2/10/20
Partner Review TB 2/15/20	EQCR Manager	EQCR Partner	Consult

Number	Date	Name	Account No	Reference	Debit	Credit
RSM06	12/31/19	Sales:Sales - Winston	4000-4038	5638		44,974.34
RSM06	12/31/19	Sales:Pocket Admin - Avalon	4000-4300	5638		42,474.62
To reverse Day #1 write-downs for contracts written under New Loan Agreement (Min Repayment = Face Value of Loan) - YE19 ELs						
					1,801,501.77	1,801,501.77

Net Income (Loss) (2,150,150.20)

Appendix E

Summary of uncorrected misstatements

Effect: Increase (Decrease)						
Description	Assets	Liabilities	Net Assets	Revenue	Expenses	Revenue over (under) expenses
Unrecorded misstatement - factual						
SLAM02 - Write off of inventory operating costs recorded to Operating Costs should be written off through Inventory Write Down (Income Stmt Classification)	-	-	-	(74,953)	(74,953)	-
SLAM04 - YE19 revenue overstated for YE18 Equity Loan adjustment	-	-	106,384	(106,384)	-	(106,384)
Unrecorded misstatement - Projected						
None present						
Unrecorded misstatement - Judgmental						
SLAM03 - Additional foreclosure allowance on Equity Receivables	\$ (23,199)	\$ -	\$ -	\$ (23,199)	\$ -	\$ (23,199)
Total uncorrected misstatements	\$ (23,199)	\$ -	\$ 106,384	\$ (204,536)	\$ (74,953)	\$ (129,583)
Cumulative net assets misstatements			\$ (23,199)			

Appendix F

Draft financial statements





Financial Statements
For the year ended December 31, 2019

Independent Auditor's Report

To the Shareholder of Attainable Homes Calgary Corporation

Opinion

We have audited the financial statements of Attainable Homes Calgary Corporation (the "Corporation"), which comprise the statement of financial position as at December 31, 2019, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2019, and the results of its operations, cash flows and changes in net assets for the year ended December 31, 2019 in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial statements, which indicates the Corporation incurred a net loss for the year ended December 31, 2019 of \$2,150,150 and has experienced asset impairments. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that material uncertainties exist that may cast significant doubt on the Corporation's ability to continue as a going concern. Our opinion is not modified in respect to this matter.

Other information

Management is responsible for the other information. The other information comprises the information, other than the financial statements and our auditor's report thereon, in the 2019 Annual Report.

Our opinion on the financial statements does not cover the other information and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

The 2019 Annual Report is expected to be made available to us after the date to auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

CHARTERED PROFESSIONAL ACCOUNTANTS

Calgary, Canada
April *, 2020

Attainable Homes Calgary Corporation

Statement of Financial Position

As at December 31, 2019 (with comparatives as at December 31, 2018)

	2019	2018
ASSETS		
Cash (Note 14)	\$ 1,350,714	\$ 1,260,996
Accounts receivable	58,066	42,111
Prepaid expenses	39,222	108,320
Inventory (Note 3)	5,370,452	12,052,125
Deposits on units (Notes 4 and 15)	518,805	856,081
Other deposits (Note 5)	11,811	45,237
Equity receivables (Note 6)	5,320,698	4,861,061
Land and site development costs	4,625,904	4,643,809
Projects under development and construction (Note 7)	4,312,609	5,664,111
Tangible capital assets (Note 11)	24,393	36,472
Total assets	\$ 21,632,674	\$ 29,570,323
LIABILITIES		
Accounts payable and accrued liabilities	\$ 577,841	\$ 2,062,483
Provision to complete construction	88,266	-
Credit facilities (Note 8)	5,933,746	10,422,353
Mortgages payable (Note 9)	3,278,804	3,278,804
Customer deposits	139,667	59,786
Deferred rent expense	19,342	7,461
Unearned revenue	6,937	1,215
Total liabilities	10,044,603	15,832,102
NET ASSETS		
Share capital (Note 13)	1	1
Operating reserve (Note 14)	1,000,000	1,000,000
Unrestricted surplus (Note 14)	10,588,070	12,738,220
Total net assets	11,588,071	13,738,221
Total liabilities and net assets	\$ 21,632,674	\$ 29,570,323

Contractual obligations (Note 15)
Subsequent events (Note 1, 9 and 15(a))

See accompanying notes to the financial statements.

On behalf of the Board

_____, Director _____, Director

Attainable Homes Calgary Corporation

Statement of Operations

Year ended December 31, 2019 (with comparatives for the year ended December 31, 2018)

	2019	2018
Sales	\$ 20,928,556	\$ 12,891,991
Cost of sales	<u>20,419,063</u>	<u>12,461,203</u>
Gross margin (note 12)	<u>509,493</u>	<u>430,788</u>
Other income	<u>392,472</u>	<u>136,573</u>
	<u>901,965</u>	<u>567,361</u>
EXPENSES		
Salaries and benefits (Note 10)	1,073,218	951,145
Professional fees	222,609	422,645
Marketing and sales	461,732	348,408
Occupancy expenses	122,248	77,743
General and administrative	101,285	99,882
Inventory carrying costs	316,120	328,603
Interest expense	<u>336,879</u>	<u>268,247</u>
	<u>2,634,091</u>	<u>2,496,673</u>
DEFICIENCY BEFORE THE FOLLOWING:	<u>(1,732,126)</u>	<u>(1,929,312)</u>
Amortization of tangible capital assets (Note 11)	13,507	13,680
Impairment of inventory (Note 3)	375,180	579,300
Unrealized loss on equity receivables (Note 6)	-	314,923
Realized gain on equity receivables (Note 6)	(3,303)	(9,295)
Bad debt expense	<u>32,640</u>	<u>17,900</u>
	<u>418,024</u>	<u>916,508</u>
OPERATING DEFICIENCY	<u>\$ (2,150,150)</u>	<u>\$ (2,845,820)</u>

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation

Statement of Changes in Net Assets

Year ended December 31, 2019 (with comparatives for the year ended December 31, 2018)

	2019	2018
NET ASSETS, BEGINNING OF YEAR	\$ 13,738,221	\$ 16,584,041
OPERATING DEFICIENCY	<u>(2,150,150)</u>	<u>(2,845,820)</u>
NET ASSETS, ENDING OF YEAR	<u>\$ 11,588,071</u>	<u>\$ 13,738,221</u>

See accompanying notes to the financial statements.

DRAFT

Attainable Homes Calgary Corporation

Statement of Cash Flows

Year ended December 31, 2019 (with comparatives for the year ended December 31, 2018)

	2019	2018
CASH PROVIDED BY (USED IN):		
OPERATING		
Operating (deficiency)	\$ (2,150,150)	\$ (2,845,820)
Non-cash and non-operating items:		
Amortization of tangible capital assets	13,507	13,680
Amortization of deferred financing costs	906	15,082
Unrealized loss on equity receivables	-	314,923
Impairment of inventory	375,180	579,300
	<u>(1,760,557)</u>	<u>(1,922,835)</u>
Non-cash working capital and other operating balances:		
Accounts receivable	(15,955)	230,806
Prepaid expenses	69,098	(95,546)
Deposits on units and other deposits	370,702	1,132,500
Inventory	6,306,493	(1,698,417)
Equity receivables	(459,637)	38,228
Land and site development costs	17,905	(1,165,944)
Projects under development and construction	1,351,502	(4,189,911)
Accounts payable and accrued liabilities	(1,484,642)	1,789,336
Provision to complete construction	88,266	-
Customer deposits	79,881	46,056
Deferred rent expense	11,881	7,461
Unearned revenue	5,722	1,215
	<u>6,341,216</u>	<u>(3,904,216)</u>
Cash provided by (used in) operating activities	<u>4,580,659</u>	<u>(5,827,051)</u>
CAPITAL TRANSACTIONS		
Purchases of tangible capital assets	<u>(1,428)</u>	<u>(19,090)</u>
Cash used in capital activities	<u>(1,428)</u>	<u>(19,090)</u>
FINANCING TRANSACTIONS		
Proceeds from credit facilities	12,389,379	17,990,186
Repayment of credit facilities	<u>(16,878,892)</u>	<u>(11,433,889)</u>
Cash (used in) provided by financing activities	<u>(4,489,513)</u>	<u>6,556,297</u>
Increase in cash, during the year	89,718	710,156
Cash, beginning of year	<u>1,260,996</u>	<u>550,840</u>
Cash, end of year	\$ <u>1,350,714</u>	\$ <u>1,260,996</u>

See accompanying notes to the financial statements.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

1. Nature of the business

Attainable Homes Calgary Corporation (the "Corporation"), a private not-for-profit corporation, is wholly-owned by The City of Calgary (the "City") and was incorporated November 27, 2009 under the Business Corporations Act of the Province of Alberta. The Corporation provides working, moderate-income Calgarians, an opportunity for home ownership through private and public sector development of entry-level housing. The Corporation is exempt from tax under the *Canada Income Tax Act*.

These financial statements have been prepared on a going concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. Should the Corporation be unable to continue as a going concern, it may be unable to realize the carrying value of its assets and meet its liabilities as they become due. These financial statements do not reflect the adjustments necessary to the presentation and carrying amounts of the assets and liabilities if the Corporation were not able to continue operations and as such adjustments and reclassifications could be material.

The Corporation incurred a loss of \$2,150,150 for the year ended December 31, 2019 (2018 - \$2,845,820). The Corporation has also recorded inventory write downs to net realizable value and allowances on its equity loans to reduce them to their minimum repayments over the last three and two years, respectively.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak (COVID-19) a "Public Health Emergency of International Concern" and on March 11, 2020, declared COVID-19 a pandemic. The impact of COVID-19 could negatively impact the Corporation's operations, suppliers or other vendors, and customer base, specifically home buyers. Any quarantines, labour shortages or other disruptions to the Corporation's operations, or those of their customers, may adversely impact the Corporation's revenues and operating results. In addition, a significant outbreak of epidemic, pandemic or contagious diseases in the human population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, including the geographical area in which the Corporation operates, resulting in an economic downturn that could affect demand for its inventory and program. As of the date of these financial statements, any new work to be started related to the Corporation's project under development and construction will not commence for an unknown period of time. All of the buildings previously under construction at December 31, 2019 have all been completed subsequent to year end. The extent to which the coronavirus impacts the Corporation's results will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and actions taken to contain the coronavirus or its impact, among others.

These factors indicate material uncertainties that cast significant doubt on the Corporation's ability to continue as a going concern.

The Corporation's ability to continue as a going concern is dependent upon its ability to:

- sell the existing inventory and complete and sell the townhouse units under construction at or above its carrying cost at completion;
- sustain positive cash flows from operations; and
- continue to obtain support from its lenders or other parties to meet current and future liabilities and contractual obligations (note 15).

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies

a. Basis of presentation

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations, including the 4200 series of standards, as issued by the Public Sector Accounting Board ("PSAS for Government NPOs").

b. Revenue recognition

Revenue from the sale of housing units and land is recognized upon the transfer of title and when collectability is reasonably assured. Amounts received from customers that have not met the revenue recognition criteria are included in customer deposits.

Other revenues include application fees, customer deposits retained from rescinded purchase transactions, rental income earned from the rental of completed inventory units and administration fees related to the facilitation of sales of housing units not held by the Corporation but sold to individuals that qualify for the Corporation's housing program.

Revenue from application fees is recognized upon the customer paying a non-refundable fee in order to hold the unit selected. Customer deposits retained from rescinded purchase transactions are recognized when a client cancels the transaction after the 10-day rescission period has passed and the waivers have been signed by the client and the Corporation. Rental income is recognized monthly, as the rental occurs. Administration fees are recognized when a firm deal on a housing unit is signed and possession date has been set, the amount can be reasonably estimated and collection is reasonably assured.

Interest revenue is recognized on an accrual basis, using the effective interest method.

c. Inventory

The cost of inventory consists of purchase costs of housing units and other costs incurred in preparing the units to be ready for sale. Inventories are measured at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any estimated costs needed to sell the units.

d. Equity receivables

Equity receivables are recognized by the Corporation on the date the Corporation assumes the risks associated with, and acquires the right to receive repayment of principal plus any shared appreciation, in accordance with the terms of the equity loan agreement (Note 6) and when the amount of the loan can be reliably measured. This normally coincides with the disbursement of funds and sale of a housing unit.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies (continued)

Equity receivables are initially reported at cost. Valuation allowances are used to reflect the equity receivable at the lower of cost and net recoverable value. Net recoverable value is the amount determined by management to be the amount of loan receivable that will ultimately be collected. Valuation allowances are determined using the best estimates available in light of past events, current conditions and taking into account all circumstances known at each financial reporting date. Subsequent to initial recognition, valuation allowances are recognized as unrealized losses on the statement of operations. If it is determined that the net recoverable value has subsequently increased, equity receivables can be written back up to their original cost and this reversal of a previously recorded allowance is offset against unrealized losses on the statement of operations in the period that the reversal takes place. Gains or losses are realized in the statement of operations in the period in which the equity receivables are settled.

e. Land and site development costs

Land and site development costs are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the land.

Land will be used for the construction and development of housing units and is recorded at the fair market value of the land at time of acquisition.

Site development costs consist of the capitalized expenditures related to the construction and development of land. Any incidental revenues related to the land inventory have been netted against the site development costs.

f. Projects under development and construction

Projects under development and construction are carried at the lower of cost and net realizable value, with cost being determined using specific identification. Net realizable value is the estimated selling price in the ordinary course of business less any costs necessary to sell the project under development and construction.

Costs capitalized to projects under development and construction include all direct costs relating to the project's carrying costs including interest on debt used to finance project acquisitions, insurance, property taxes and land acquisition costs. Corporate administration overhead is not capitalized.

The costs of the properties are allocated to each building using specific identification and further to each unit of a project based on projected revenues in the building. The cost of a unit is allocated using the net yield method on the basis of the estimated total cost of the project prorated by the anticipated selling price of the unit over the anticipated selling price of the entire project.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies (continued)

As buildings within the project are complete, the construction costs specific to the building as well as a portion of land costs, which are allocated on a pro-rata basis, and estimated completion costs are transferred to inventory. The total estimated costs relating to the sold unit is recorded as a liability once the unit has sold. The unexpended portion of the total estimated costs is shown as a provision to complete construction in the statement of financial position. Whenever the estimate is determined to be materially different from the actual costs incurred or expected to be incurred, an adjustment is made to the provision with a corresponding adjustment to the cost of sales and inventory. Independent contractors and management calculate these estimates, however, until the building is completed, these costs are subject to measurement uncertainty.

g. Tangible capital assets

Tangible capital assets are recorded at historical cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over the estimated useful life as follows:

	Years
Computers	5
Office equipment and furniture	5
Leasehold improvements	3

One-half of the annual amortization is charged in the year of acquisition and one-half in the year of disposal.

h. Impairment of assets

When conditions indicate that a tangible capital asset, inventory, site development costs or land no longer contributes to the Corporation's ability to provide goods and services, or that the value of future economic benefits associated with the asset are less than its net book value, the cost of the asset, is reduced to reflect the decline in the asset's net realizable value. When the opposite occurs on an asset that has previously been impaired, an impairment reversal is recorded, up to the assets original cost before any impairments. Any write-down, or reversal of write down, is included in the statement of operations.

i. Financial instruments and fair values

All the Corporation's financial instruments have been measured at cost or amortized cost.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

2. Significant accounting policies (continued)

j. Use of estimates

The financial statements are prepared in accordance with Canadian public sector accounting standards for government not-for-profit organizations which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the year. Significant estimates include valuation of inventory, land and site development costs, allowance for doubtful equity receivables and provision to complete construction. Actual results could differ from those estimates.

3. Inventory

Inventory consists entirely of housing units held for re-sale. During the year ended December 31, 2019 inventory was written down by \$375,180 (2018 - \$579,300) to its net realizable value, which has been included in impairment of inventory on the statement of operations.

The movement in inventory during the year consists of the following:

	2019		2018	
	Units	\$	Units	\$
Balance, beginning of year	50	\$ 12,052,125	47	\$ 10,933,008
Purchases	19	4,941,739	49	13,998,388
Transfers from projects under development	36	9,037,114	-	-
Inventory sold	(82)	(20,285,346)	(46)	(12,299,971)
Impairment	-	(375,180)	-	(579,300)
Balance, end of year	23	\$ 5,370,452	50	\$ 12,052,125

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

4. Deposits on units

As at December 31, 2019, the Corporation has paid \$518,805 (2018 - \$856,081) in non-refundable deposits for 36 (2018 – 68) housing units.

The movement in deposits on units during the year consists of the following:

	2019		2018	
	Units	\$	Units	\$
Balance, beginning of year	68	\$ 856,081	35	\$ 485,708
Additions	-	43,200	84	1,063,585
Carrying costs incurred	-	74,954	-	-
Possessions	(19)	(238,231)	(51)	(693,212)
Deposits released	(11)	(142,245)	-	-
Write-off of carrying costs	-	(74,954)	-	-
Balance, end of year	38	\$ 518,805	68	\$ 856,081

During the year ended December 31, 2019 amendments were made to Purchase Agreements, resulting in the units originally agreed to be purchased being exchanged for a different unit. This exchange did not result in a net change in quantity of units and deposits made on the original units were transferred to the new units. The exchange increased the deposit on two units, as noted in the additions above. As a part of these amendments to the Purchase Agreements, 11 units were removed from the original contracts and the deposits were released back to the Corporation during the year.

During the year ended December 31, 2019, \$74,954 (2018 - \$nil) of carrying costs were incurred due to the Corporation deferring the purchase of inventory units (note 15(a)). These amounts were determined to not be recoverable and have been written off through the statement of operations as a part of inventory carrying costs.

5. Other deposits

As at December 31, 2019, the Corporation has paid \$11,811 (2018- \$45,237) in other deposits related to a security deposit on the Corporation's rental space leased in 2018.

The balance at December 31, 2018 related to a deposit related to the Corporation's rental space leased in 2018 as well as refundable deposits paid to builders on units.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

6. Equity receivables

Equity receivables comprise amounts that customers owe the Corporation for the purchase of housing units through participation in the Corporation's housing programs. The amount recorded is approximately 5% of the original sales value of each unit and is stipulated in each equity loan contract signed by the Corporation and the customer.

For agreements entered into prior to April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the greater of the predetermined minimum repayment amount or a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage.

For agreements entered into after April 1, 2018, at such time that the customer sells or refinances their unit, they are obligated to pay the predetermined minimum repayment amount plus a shared participation amount. The shared participation amount is calculated as a percentage of the appraised current market value less the customer's deposit and secured first mortgage and equity loan receivable.

The length of ownership of the unit by the customer is calculated as the period between the closing date and the disposition date. The number of years the customer owns the property dictates the percentage used in the shared participation calculation; as follows:

For agreements entered into prior to April 1, 2018:

Length of ownership of the unit by the customer	% of the shared participation due to the Corporation
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the second anniversary of the closing date	75%
From the second anniversary to the third anniversary of the closing date	50%
From the third anniversary until the disposition of the unit	25%

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

6. Equity receivables (continued)

For agreements entered into subsequent to April 1, 2018:

<u>Length of ownership of the unit by the customer</u>	<u>% of the shared participation due to the Corporation</u>
From the closing date to the first anniversary of the closing date	100%
From the first anniversary to the third anniversary of the closing date	75%
From the third anniversary to the fifth anniversary of the closing date	50%
From the fifth anniversary until the disposition of the unit	25%

Equity receivables consist of the following:

	<u>2019</u>	<u>2018</u>
Face value of equity receivable, beginning of year	\$ 8,572,274	\$ 8,838,650
Add: Value of sales in the year	871,761	344,250
Less: Value of loans settled in the year	(735,590)	(610,626)
Face value of equity receivable, end of year	<u>8,708,445</u>	<u>8,572,274</u>
Net recoverable allowance, beginning of year	3,711,213	3,624,438
Less: Net recoverable allowance on loans settled in the year	(323,466)	(228,427)
Add: Write down to net recoverable value on prior year loans	-	250,826
Add: Increase in foreclosure allowance	-	64,376
Net recoverable allowance, end of year	<u>3,387,747</u>	<u>3,711,213</u>
Equity receivable, net, end of year	<u>\$ 5,320,698</u>	<u>\$ 4,861,061</u>

During the year ended December 31, 2019, \$735,590 (2018 - \$610,626) of gross equity receivables, net of previously recorded allowances of \$323,466 (2018 - \$228,427) were settled for cash proceeds of \$415,427 (2018 - \$391,494) resulting in a realized gain of \$3,303 (2018 - \$9,295) which has been included in the statement of operations.

The Corporation holds encumbrances and security over the property to which the equity receivable relates.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

7. Projects under development and construction

Projects under development and construction consist of land and development costs on a multi-family project located in the north-east of Calgary. The balance consists of:

	2019	2018
Opening balance	\$ 5,664,111	\$ -
Cost incurred:		
Land	-	1,474,200
Project costs	7,685,612	4,189,911
Transfers to inventory	(9,037,114)	-
Closing balance	\$ 4,312,609	\$ 5,664,111

8. Credit facilities

Credit facilities outstanding consist of \$5,933,746 (2018 - \$7,357,755) under the revolving operating facility of \$NIL (2018 - \$3,064,598) under the evergreen facility and \$NIL (2018 - \$NIL) under the temporary bridge loan.

a) Revolving operating facility

On October 31, 2019 the Corporation entered into a new agreement, that replaced a previous facility with the same lender, where the Corporation has available a \$10 million revolving operating credit facility with a financial institution that is due February 28, 2020 with an option to extend for an additional 364 days, at the discretion of the lender, but shall not be extended beyond June 30, 2021. During the year, the loan was extended to February 28, 2021. The credit facility is available by way of prime-based loans, guaranteed notes and up to \$3,000,000 of letters of credit.

Interest is payable monthly at an annual rate of prime less 0.75%. As at December 31, 2019 the Corporation had \$6,251,750 (2018 - \$7,878,885) outstanding on the credit facility, comprised of \$5,933,746 (2018 - \$7,357,755) outstanding on the revolving credit facility, and three (2018 - three) letters of credit of \$313,426 (2018 - \$515,645) in favour of The City of Calgary that expire between June 29, 2020 and September 19, 2020 and renew automatically on expiry.

Borrowings under this credit facility are secured by a general security agreement. In addition, The City of Calgary has provided a continuing \$10 million guarantee in exchange for first ranking fixed charge on all the Corporation's present and after acquired property.

b) Evergreen facility

On June 4, 2019, the Corporation entered into a new agreement that replaced a previous facility with the same lender, for a \$10 million evergreen loan facility with a financial institution. Funds are not available under this facility until after May 31, 2020 subject to the annual review. The facility is non-revolving and amounts repaid may not be reborrowed.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

8. Credit facilities (continued)

The evergreen facility is payable in full on demand by the Lender and is to be used for purchase of completed units from various housing projects and developments in the City of Calgary. Advances under this facility will be determined by the Lender. The Lender will finance the amount up to 75% of the purchase price of the eligible units (as defined by the agreement) with a minimum advance of \$500,000 and maximum advance of \$2,500,000.

The balance of all amounts owing under each advance are payable by the end of twelve months from the date of such advance, except the advance relating to Chalet No. 6, which was due on July 31, 2019.

Interest was payable monthly at an annual rate of prime plus 0.75% for funds advanced on the Chalet No. 6 advance and prime plus 0.35% for all other advances and a mandatory repayment of 100% of net sale proceeds of each unit is to be applied as a principal repayment under the facility. The Corporation had the following amounts outstanding:

	December 31, 2019	December 31, 2018
	Amount	Amount
Chalet No. 6	\$ -	\$ 564,598
Buffalo	-	2,500,000
	<u>\$ -</u>	<u>\$ 3,064,598</u>

Borrowings under this facility are secured by a \$10 million first fixed charge over all eligible units (as defined by the agreement) financed under this facility. The City of Calgary subordinates and postpones security interest (see Note 9(a)) as it relates to any eligible units financed under this facility. The book value of the assets secured under this facility is \$nil (2018 - \$3,995,152).

The Corporation is required to maintain a total debt-to-equity ratio of less than 2.50:1 relating to this facility. At December 31, 2019, the Corporation is in compliance with this covenant.

This credit facility is scheduled for its next annual review on May 31, 2020, but may be set at an earlier or later date at the sole discretion of the Lender.

c) Temporary bridge loan

On June 14, 2019 the Corporation entered into an agreement for a temporary bridge loan facility with a financial institution that could not exceed the lesser of \$2,000,000 and 50% of the sales price of unconditional sales contracts relating to the Corporation's multi-family project being constructed (note 7). The facility was only available by way of one advance that was made prior to June 30, 2019. Amounts not drawn at that date were cancelled and no longer available to the Corporation.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

8. Credit facilities (continued)

The temporary bridge loan was payable in full on demand by the Lender. Interest was payable monthly at an annual rate of prime plus 0.70% and a mandatory repayment of the balance of all amounts owing under the facility to be repaid with 100% of the net sale proceeds of each unit from the multi-family project, with the balance of all amounts owing under the facility being due and payable by August 15, 2019.

Borrowings under this facility were secured by an irrevocable assignment of sales proceeds up to a maximum of \$2,000,000 with respect to the eligible units financed under the facility. The City of Calgary subordinates and postponed security interest (see Note 9) as it related to any eligible units financed under this facility.

During the year ended December 31, 2019, all amounts drawn were fully repaid and the facility was cancelled by the Lender.

9. Mortgages payable

The Corporation and the City entered into a Mortgage and a purchase and sale agreement on April 7, 2011, whereby the Corporation received the deemed principal sum of \$5,188,312 by advancement of the transfer of four parcels of land (the "Lands") by the City to the Corporation. The maturity date of the Mortgage is the earlier of (i) August 3, 2021, (ii) in the event the Corporation sells any parcel of land, then a portion of the principal sum allocated to the sold parcel as outlined in the Mortgage agreement or (iii) in the event the Corporation sells the Lands in a single transaction, then on the date the Corporation receives the net proceeds of the sale. The balance owing on the mortgage is \$3,278,804 as at December 31, 2019 (2018 - \$3,278,804). The book value of the properties secured by the mortgage is \$4,625,904 (2018 - \$4,643,809). There is no interest on the principal sum provided the Corporation is not in default of any obligations under the Mortgage. Should the Corporation be in default, the mortgage becomes immediately due and payable and interest will begin to be charged at a rate that is the floating annual prime rate as established by the Royal Bank of Canada and is payable on the outstanding principal sum from the date of event of default to the maturity date.

The Corporation is required to maintain an interest coverage ratio of at least 1.25:1 and a total debt ratio of no greater than 3:1. The Corporation met the total debt ratio but was in default on the interest coverage ratio at December 31, 2019 and 2018. On November 5, 2019, the City of Calgary provided a waiver for the breach of the covenant and any associated enforcement to its right to remedy as at December 31, 2018. On March 19, 2020, the Corporation amended its credit agreement with the City of Calgary, to remove the interest coverage ratio, effective November 18, 2019.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

10. Pension plan

The Corporation provides a contributory pension plan for qualifying employees through participation in the Local Authorities Pension Plan ("LAPP"). LAPP is a multi-employer defined benefit pension plan offered to various unrelated employers throughout Alberta. The responsibility for high level strategic guidance of the pension plan is held by the LAPP Board of Directors. The pension plan is administered by the Board of Trustees who sets contribution rates and investment policy. The plan provides a defined benefit pension based on the employee's earnings and length of service.

The most recent actuarial report of the plan discloses a funding surplus. LAPP is not able to provide information which reflects AHCC's specific share of the defined benefit obligation or plan assets that would enable the Corporation to account for the plan as a defined benefit plan. Therefore, the Corporation has accounted for its participation in the plan using defined contribution accounting.

During the year ended December 31, 2019, the expense funded and recognized by the Corporation was \$79,845 (2018 - \$66,671), which has been included in salaries and benefits on the statement of operations.

11. Tangible capital assets

	December 31, 2019		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computers	68,546	54,580	13,966
Office equipment and furniture	62,132	55,431	6,701
Leasehold improvements	98,482	94,756	3,726
Total tangible capital assets	229,160	204,767	24,393
	December 31, 2018		
	Cost \$	Accumulated Amortization \$	Net Book Value \$
Computers	67,118	48,333	18,785
Office equipment and furniture	62,132	51,994	10,138
Leasehold improvements	98,482	90,933	7,549
Total tangible capital assets	227,732	191,260	36,472

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

12. Gross margin

Gross margin consists of the following:

	2019			2018
	Developed Inventory \$	Purchased Inventory \$	Agency Sales \$	Total \$
Sales	7,672,333	13,100,535	155,688	20,928,556
Cost of sales	7,553,246	12,865,817	-	20,419,063
	119,087	234,718	155,688	509,493

13. Share capital

The Corporation is authorized to issue an unlimited number of common shares. The shares can be issued only to the City, its agent or successor and are not otherwise transferable. As at December 31, 2019 and December 31, 2018 one share was issued and outstanding.

14. Accumulated operating surplus

Accumulated operating surplus consists of:

	<u>2019</u>	<u>2018</u>
Operating reserve	\$ 1,000,000	\$ 1,000,000
Unrestricted surplus	10,588,070	12,738,220
	<u>\$ 11,588,070</u>	<u>\$ 13,738,220</u>

During the year ended December 31, 2016, the Board of Directors of the Corporation approved a transfer of \$1,000,000 to the operating reserve. The Corporation funded 50% of the reserve in 2016, which is kept in a separate bank account. The remaining reserve will be funded through future operating surpluses.

During the year ended December 31, 2019, the Corporation accessed the operating reserve, with Board approval, and the reserve was replenished during the year upon the closing of sales from its multi-family project.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

15. Contractual obligations

At December 31, 2019 the Corporation has the following contractual obligations:

- a) The Corporation has entered into contracts with builders that require the Corporation to buy inventory units from the builders if the units are not sold within specific time limits.

The contractual obligations related to these contracts are as follows:

- (i) During the year ended December 31, 2018, the Corporation entered into an agreement to purchase up to 36 inventory units for \$8,665,930, less deposits of \$433,297 paid, to be purchased in two tranches, beginning in March 2019. The Corporation shall not be required to complete more than five closings per calendar month, unless the Corporation determines in its sole discretion to increase such amounts.

In the case that the Corporation has not sold a Unit by the applicable Unit Closing Date, the Corporation may choose to reimburse the builder for the carrying costs for the units, rather than closing on them as the Corporation may choose in its sole discretion.

During the year ended December 31, 2019 the Corporation purchased 10 units and elected to defer purchasing 26 units and incurred carrying costs of \$73,908 (2018 - \$nil) on the deferred units. These carrying costs are included in inventory carrying costs on the statement of operations.

Once the Corporation has achieved eighteen unconditional sales, an appraisal will be conducted on one unit type to determine if values have increased or decreased. In the case that values have increased to a point where the Unit value has increased by \$7,500 or greater (exclusive of net GST), then the Unit Purchase Price shall increase by the difference between the original agreed upon Unit price and 89% of the updated appraisal value, but in no event shall the Unit Purchase Price for unit increase by greater than 10%, for the remaining 18 units. In the case of a decrease in value, a similar adjustment will be made to ensure the Unit Purchase Price remains 89% of the market value on remaining Units.

As at December 31, 2019, the Corporation is committed to purchase 26 remaining units for \$6,538,261 less deposits of \$311,812 previously paid for a total commitment of \$6,226,449. Subsequent to year end, 8 units were purchased for \$2,009,674 less the deposits of \$96,165, previously paid.

- (ii) During the year ended December 31, 2018, the Corporation entered into an agreement to purchase up to 24 inventory units for \$6,551,738 less deposits of \$327,587. If the Corporation does not have a firm sale in place, once an occupancy permit has been issued by the City of Calgary on a substantially completed unit, the Corporation will close the purchase within 30 days thereafter up to a maximum of 2 units per month starting no sooner than May 1, 2019.

In lieu of closing on a unit, the Corporation, at its own discretion, will pay the builder's carrying costs for the said unit until a firm sale with the Corporation's purchaser occurs.

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019
(with comparatives as at and for the year ended December 31, 2018)

15. Contractual obligations (continued)

During the year ended December 31, 2019 the Corporation purchased 5 units and elected to defer purchasing 7 units that had received occupancy permits and incurred carrying costs of \$1,046 (2018 - \$nil) on the deferred units. These carrying costs are included in inventory carrying costs on the statement of operations. 5 units have yet to receive occupancy permits.

During the year ended December 31, 2019 amendments were made to Purchase Agreements for price reductions on units committed to as well as amending to remove 7 units originally agreed to be purchased. The deposits on these 7 units were released back to the Corporation during the year (note 4).

As at December 31, 2019, the Corporation is committed to purchase 12 remaining units for \$2,952,590 less deposits of \$206,993 previously paid for a total commitment of \$2,745,597. Subsequent to year end, the Corporation closed on 6 units, satisfying \$1,380,292 of the committed amount. Of the 12 remaining units at December 31, 2019, 1 unit is under addendum to release back to the builder upon its firm sale by the builder. Once released, the deposit of \$12,750 will be released to the Corporation and the obligation to purchase will be reduced by \$218,944.

- (b) During the year ended December 31, 2019, the Corporation entered into an agreement with Enmax, a wholly owned subsidiary of the City of Calgary, for a commercial solar deferred payment purchase agreement, relating to the purchase and installation of solar panels for the multi-family dwelling currently under development (note 7). The total purchase price associated with this agreement is \$915,200 plus GST. Of this, \$288,000 is due on or before the Commercial Operation Date, which will be as each building's solar panels are installed, inspected and ready to be activated. The remaining amount is payable as a monthly amount of \$4,331.33 for the next 15 years. Upon the formation of a condominium corporation this contract will be assigned to the condominium corporation and the Corporation will be relieved of its commitment at that time. During the year ended December 31, 2019, the Corporation incurred \$72,000 of the \$288,000 initial fee which has been included in projects under development and construction (note 7), a portion of which has been transferred to inventory (note 3) upon completion of the applicable buildings.

- (c) The Corporation has a lease commitment for its office lease that ends on December 31, 2023 as follows:

2020	13,368
2021	22,280
2022	26,736
2023	<u>31,192</u>
	<u>\$ 93,576</u>

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

16. Financial instruments

Financial instruments consist of cash, accounts receivables, equity receivable, other deposits, accounts payable, credit facilities, mortgages payable and customer deposits. The carrying value of the cash, accounts receivable, other deposits, accounts payable, and customer deposits approximates their fair value due to the short term nature of these financial instruments. The carrying value of equity receivables approximate their fair value due to the loans being carried at their minimum repayments. The carrying value of the credit facilities approximates fair value due to the facilities bearing interest at market rates. The estimated fair value of the mortgages payable is \$3,173,645 (2018 – \$3,076,630). Calculation of the estimated fair value of the mortgages payable is based on lending rates published at December 31, 2019 for loans with comparable maturities from the City's primary lender, the Alberta Capital Finance Authority ("ACFA").

a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Corporation is exposed to interest rate cash flow risk to the extent that credit facilities bear interest at floating interest rates. Interest rate risk is limited for mortgages payable as interest is only payable in the event of default.

b) Credit risk

Credit risk is the risk that one party's financial instruments will cause a financial loss for the other party by failing to discharge an obligation. The financial instruments that potentially subject the Corporation to a significant concentration of credit risk consist primarily of cash, accounts receivable, equity receivable and other deposits.

The Corporation mitigates its exposure to credit loss by placing its cash with major financial institutions and in lawyers' trust accounts. Accounts receivable primarily relates to grant revenue that was received subsequent to year end and other deposits is a refundable deposit due from the Corporation's landlord. Credit risk associated with equity receivables are mitigated by encumbrances and security over the property to which they relate.

c) Liquidity risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with financial liabilities. The Corporation's financial liabilities consist of accounts payable, credit facilities, mortgages payable and customer deposits. As at December 31, 2019, the Corporation has available \$3,748,250 relating to its revolving credit facility, and \$nil relating to its term loan facility (Note 8). The Corporation anticipates that it will be able to repay all financial liabilities as they come due so long as it continues to receive support from its lenders (note 1).

Attainable Homes Calgary Corporation

Notes to the Financial Statements

As at and for the year ended December 31, 2019

(with comparatives as at and for the year ended December 31, 2018)

16. Financial instruments (continued)

d) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's financial instruments are not subject to substantial market risk.

17. Comparative figures

Certain comparative figures have been reclassified to conform with current year's presentation.

rsmcanada.com

RSM Canada LLP is a limited liability partnership that provides public accounting services and is the Canadian member firm of RSM International, a global network of independent audit, tax and consulting firms. RSM Alberta LLP is a limited liability partnership and independent legal entity that provides public accounting services. RSM Canada Consulting LP is a limited partnership that provides consulting services and is an affiliate of RSM US LLP, a member firm of RSM International. The firms of RSM International collaborate to provide services to global clients, but are separate and distinct legal entities that cannot obligate each other. Each firm is responsible only for its own acts and omissions, and not those of any other party. Visit rsmcanada.com/aboutus for more information regarding RSM Canada and RSM International.

RSM, the RSM logo and *The power of being understood* are registered trademarks of RSM International Association, used under licence.














**Attainable Homes Corporation Calgary
2020 Risk Summary**




IMPACT	HIGH	Asset protection (13) Client Expectations (6)	Regulatory (23) Financial Reporting & Planning (14) Customer base (16)	Market (22) Operating cash management – (< 12 months) (19) Development cash management – (1-9 years) (20) Business Model (1) Performance Monitoring (7) Shared Equity Model (2)
	MEDIUM	Legal liability (8) Leadership (4) Builder partnerships (9)	Inventory (18) Accountability alignment (10) Employee retention and compensation (11) Inventory Pipeline (17) Brand (21) Cost management (12)	
	LOW	Shareholder alignment (5) Records management – privacy / legal docs (15)	Governance (3)	
		LOW	MEDIUM	HIGH
		LIKELIHOOD		

Updated June 5, 2020

ATTAINABLE HOMES CALGARY CORPORATION

	Risk Title	Risk Description	Existing Controls or Treatment Techniques in place	Likelihood	Impact	Risk Rating	Trend	Summary of Risk Rating	Significant Improvement required? (Y / N)	Summary of Improvement Activities	Improvement Status	Owner	Notes
	Risk title	Risk Description:	List the 5 most important controls which are currently in place, add a succinct description where necessary			<div> <div>High</div> <div>Medium</div> <div>Low</div> </div>	Indicate whether risk is: Increasing ↑ Decreasing ↓ Stable ↔	(If Risk Rating is increasing or decreasing, indicate top 3 reasons)	Yes: improvement is required. No: improvement NOT required NA: Risk has not been assessed	List key control activities to be implemented; or if risk level is to be increased, what key controls can be removed? Indicate the projected completion date for each activity (ie. 2016 Q3 or 2018)	<div> <div>Completed</div> <div>In Progress</div> <div>Overdue</div> <div>NA</div> </div>	List risk owner	Additional notes as required
1	Business Model	AHCC has the appropriate business model (being the roles, responsibilities and accountabilities of individuals to optimize the achievements of its Mission, Mandate and Corporate Goals and Objectives).	1. Business plan reviewed and approved by Board each year 2. Budget approved by the Board each year 3. Governing documents and agreements with the shareholder are reviewed to ensure ongoing alignment with AHCC business model. 4. Strategic plan is created every 5 years 5. Improvements have been made to the current program and new programs are being designed	High	High		↑	1. draft Strategic Plan Updated developed in 2020 2. Current core model of providing Down Payment Assistance with Equity Appreciation share is challenging in flat market experienced since 2014	Yes	1. AHC Board conducted strategic planning session on Dec 12, 2019 to discuss mission, vision, and strategy. Updated 5-year strategic plan 2017-2022 to be presented to shareholder in June 2020. 2. Evaluate Perpetual Affordable Housing project for inclusion in 2020 budget 3. Acquire inventory through traditional builder partnerships, pocket deals, buying builder standing inventory, develop our own projects	In Progress	President & CEO	
2	Shared Equity Model	AHCC's long term sustainability is partially dependent on the success of the shared equity model. In concert with access to debt, sufficient future long-term cash streams must be generated to fund the acquisition of land and the construction and/or acquisition of program inventory. The 5-year program aligns the participation calendar with refinancing and adjusts the shared participation calculation to be done after the equity loan is repaid.	1. Improvements have been made to limit financial risk associated with the model in April 2018 2. Loans issued since April 2018 are now to be fully repaid at program exit	High	High		↑	1. Improvements to the model mitigate losses for future transactions. 2. Focus on quality of life targets and quality product when procuring homes increases resale value 3. AHC employs only the down payment loan model and there is limited to no upside in the equity share model as currently used	Yes	The down payment assistance loan remains a viable tool to help Calgarians into homeownership but the shared equity component of that model has very limited to no upside and therefore is not a reliable source of sustainable revenue.	NA	President & CEO	
3	Governance	The Board has the appropriate governance process in place supporting the corporation's ability to effectively achieve its mission, mandate and strategic plan.	1. All committees require that policies be reviewed every three years 2. Board composed of two City council members and up to 10 qualified and experienced business leaders. 3. Skill based board that periodically evaluates knowledge gaps. Recently added insurance, sales, construction and development expertise to 2019 Board 4. Added Past chair position to the Board in June 2019	Medium	Low		↓	Expanded, more diverse board	No		NA	Board Chair	
4	Leadership	AHCC staff are effectively led or empowered to fulfill the Corporation's mission and mandate and strategic plan.	1. Corporate Performance and Governance committee of the board considers succession planning issues as part of mandate	Low	Medium		↓	1. Highly qualified President & CEO in place. 2. Highly qualified Director of Finance in place	No		Complete	Board Chair	
5	Shareholder alignment	AHCC acts and is perceived to act in accordance with the letter and spirit of the shareholder agreement and satisfies the needs and expectations of its sole shareholder.	1. Report annual to shareholder 2. Annual reports to the City of Calgary Audit and Accountability Committee 3. 2019- newly established regular relationship with City Treasury/Finance	Low	Low		↓		No		NA	Board Chair	
6	Client expectations	AHCC understands, assesses, and manages clients' housing needs and expectations supporting the corporation's ability to effectively meet its mission, mandate and corporate goals and objectives.	1. Market research completed in Q4 2019 to assist in understanding client needs and needs of general moderate income segment 2. Reporting completed that confirms affordable home ownership is still an issue in Calgary. Material was shared with Board	Low	High		↔	1. Research showing that clients don't fully understand program offering. 2. Interest in program continues to increase, but the conversion rate on those leads is traditionally low.	No	1. Market research completed and informs day to day business 2. Lead management process now in place through sales team use of AHC Sales Manual	Complete	Director, Marketing & Communications	
7	Performance monitoring	Appropriate performance measures exist to monitor and enhance the corporation's performance	1. Key performance indicators are calculated and distributed quarterly to assist with decision making 2. Forecasts are updated during the year 3. New dashboard being created with early market indicators	High	High		↑	1. KPIs are being updated to be more reflective of key measure of the organization, this work is being undertaken through A&A committee	Yes	New KPIs that identify future risks will be presented at AHC A&A committee on June 5, 2020	In Progress	Director of Finance	
8	Legal liability	Exposure to risk of litigation or other events which may result in financial loss to the corporation or damage to its reputation is mitigated.	1. Appropriate insurance coverage in place 2. Appropriate internal controls exist to ensure process risk is mitigated with all transactions and commitments are adequately reviewed for potential liabilities and loss to the corporation 3. Oversight of systems of internal control is included in annual work plan- all internal controls were updated and approved by A&A committee in Q4 2019 4. Procurement policy was documented in 2016, making process easier to communicate to new partners	Low	Medium		↔	1. Detailed process documents continue to be reorganized and modernized 2. Cybersecurity an ongoing risk to be constantly addressed	Yes	1. Cybersecurity audit to be completed in 2020	In Progress	President & CEO	
9	Builder Partnerships	Relationships with key builders which may result in unacceptable business interruptions or unacceptable costs if the existing builders cease to exist or are unable to provide a satisfactory level of service, are appropriately managed.	1. Risk is minimized by working with many builders and by cultivating long term relationships with reliable and proven partners 2. Transparent procurement process with mid-term and post-mortem reporting promotes open communication with vendors	Low	Medium		↓	1. All agreements with builders are reviewed by AHC committee, Board, and fall under City of Calgary procurement policies	No		Complete	President & CEO	

	Risk Title	Risk Description	Existing Controls or Treatment Techniques in place	Likelihood	Impact	Risk Rating	Trend	Summary of Risk Rating	Significant Improvement required? (Y / N)	Summary of Improvement Activities	Improvement Status	Owner	Notes
10	Accountability alignment	Individual employee responsibilities and accountabilities are adequately defined and aligned with the corporation's business model to support the effective achievement of its strategic and operational goals.	1. Job descriptions exist for all positions 2. Job descriptions align with performance management process 3. Annual goal setting is completed for all employees 4. Corporate Performance and Governance committee has oversight in this area	Medium	Medium		↓	1. performance management process to be updated after approval of budget 2020 and goals under updated strategic plan 2017-2022	No		NA	President & CEO	
11	Employee retention and compensation	The right people are effectively attracted, developed and retained, influencing the corporation's ability to achieve its mission and AHCC establishes and administers proper compensation, benefits and rewards for its employees, impacting the corporation's ability to attract and retain a suitably skilled workforce	1. Recruitment is conducted in targeted and appropriate industry specific settings 2. Annual performance compensation reviews are completed for each member of staff 3. Corporate Performance and Governance Committee oversees performance management and approves compensation levels for each fiscal year 4. Compensation offered is benchmarked against non-profit salaries for Calgary 5. AHCC offers a highly competitive benefits package with the improved benefits package through SunLife established in June 2019	Medium	Medium		↓	1. Absence of a bonus payment incentive is counter to development industry and is a risk in attraction and retention of talent	No		NA	President & CEO	
12	Cost management (Operating overheads)	Effective budgetary and cost management processes are in place resulting in the Corporation's ability to meet its existing financial liabilities and commitments.	1. The annual budget is approved by the Board and City Council 2. Each development project is approved on its own merits by the Board 3. Costs are monitored monthly as part of monthly financial statements provided to President & CEO 4. The budget is developed as part of the Business Plan process starting in Q3 each year	Medium	Medium		↔	1. review of project budgets needs to be formalized through ongoing evolution of the Development Committee	No	1. all individual projects and AHC G&A are allocated to individual budgets, reviewed individually then rolled up in to Business Plan	NA	Director of Finance	
13	Asset protection	Physical and financial assets are protected and the risk of fraudulent activities or unauthorized use of these assets by employees or others is minimized.	1. Internal controls are in place and periodically audited and reviewed 2. Whistle blower policy is in place 3. Few assets of value are kept on site 4. Cyber security audit planned	Low	High		↓		No		NA	Director of Finance	
14	Financial planning & reporting	Appropriate financial planning and related reporting supports the Corporation in making informed decisions and reporting credible financial and management information our Board and Shareholder.	1. The Board or Committee reviews financial statements quarterly 2. External audits are conducted annually of the financial statements	Medium	High		↔	This rating changed significantly from last report- AHC completed regular financial planning and reporting prior to Jan 2019 that was not addressing significant financial risk	Yes	1. production of monthly financial statements ON TIME 2. production of quarterly financial statements shared with committee and Board, ON TIME 3. ALL individual projects now include a cash forecast related to budget 4. balance sheet and 18 month Business Plan Forecast will appear in Business Plan 2020 for first time 5. new Business Plan workplan instituted for 2019 and beyond 6. monthly meetings now established with lender and shareholder	In Progress	Director of Finance	
15	Records Management (Privacy and Legal Docs)	Personal information pertaining to customers is collected, used only for appropriate business reasons and protected from disclosure.	1. Personal financial information is collected and used only by AHCC banking partners and lawyers 2. Records management internal controls have been developed 3. Electronic copies of key legal documents are made. All hard copy customer files will be archived in long term storage once the settlement is received and recorded. 4. FOIP training is up to date as of 2019 5. Keep updated on privacy rules and legislation.	Low	Low		↔		No		NA	Director of Finance	
16	Customer base	Customer base and demand may be affected by changes in the market and in legislation.	1. Market, social and environments are monitored so the proactive steps can be taken to address both positive and negative changes in demand. 2. Additional models will increase client base	Medium	High		↓		No		NA	Director, Marketing & Communications	
17	Inventory pipeline	Access to appropriate inventory will fluctuate depending on what is available in the market.	1. AHC is continuously looking for new inventory via deep connections in the builder, developer, broker, affordable housing, municipal & provincial government and real estate agent communities	Medium	Medium		↔		No		NA	President & CEO	
18	Inventory	Oversupply of inventory which we are committed to purchase and therefore incur carrying costs.	1. AHC has previously acquired inventory without an exit strategy 2. Purchase strategy has been adjusted with a more phased approach and a unit take down provision where a completed unit need not be taken into inventory	Medium	Medium		↓	1. Too much inventory remained owned directly by AHC for too long 2. Carrying costs high for finished units	Yes	1. new PSAs with builder partners include conditions wherein unsold units need not be bought by AHC. This reduces risk in owning standing inventory 2. majority of standing inventory was sold in 2019	NA	President & CEO	
19	Operating cash management - short term (< 12 months)	Operating cash is significantly affected by the timing of project and unit completions and customer possessions which can be quite irregular.	1. Revolving credit facility of \$10M is available without notice 2. Evergreen facility of \$10M of debt is available for asset purchases when appropriate.	High	High		↔	1. Cash flow management represents one of the greatest risk to AHC 2. KPIs have been adjusted to include forward looking indicators to help manage cash flow risk	No	1. Cash flow forecasted on a regular basis for upcoming week, month and year 2. KPIs have been revised to include cash flow metrics and forward looking metrics to help manage and mitigate risk 3. Viability and appropriateness of financing facilities is underway as part of Business Planning process	In Progress	Director of Finance	
20	Development cash management (3-9 years)	Until consistent cash streams are generated from the release of shared equity on sale or settlement of properties, there may be insufficient cash to fund the acquisition of land and the construction or acquisition of program inventory necessary to maintain the program indefinitely.	1. Revolving credit facility of \$10M is available without notice 2. AHCC is researching partnerships with complementary organizations that have land	High	High		↔	1. inventory acquisition represents significant challenges to cash flow if risk assessment of timing of projects and take down impact is not reviewed	No	1. New inventory acquisition process is being developed and implemented through Development Committee and Board	In Progress	President & CEO	

	Risk Title	Risk Description	Existing Controls or Treatment Techniques in place	Likelihood	Impact	Risk Rating	Trend	Summary of Risk Rating	Significant Improvement required? (Y / N)	Summary of Improvement Activities	Improvement Status	Owner	Notes
21	Brand	As a direct subsidiary of the City, AHCC has a strong brand and higher public exposure than most non-profits of a similar size. AHCC's profile and relationships with the general public, communities, City Council, homebuyers, and the building and development industry are particularly important to our ability to continue delivering homes at attainable prices in Calgary.	1. AHCC engages key stakeholders and proactively positions the organization through traditional and new media 2. AHCC monitors and manages any potential issues that could impact AHCC's profile 3. Standing with the building and development community is protected by working with partners who demonstrate integrity, financial stability and community support 4. AHCC's relationships with clients are paramount; great efforts are put in to educating customers to ensure they enter the program with all available information and realistic expectations 5. Risk of brand erosion due to social media events is mitigated through an internal process for dealing with issues as well as an internal social media policy that applies to employee's business and personal social media usage	Medium	Medium		↔	1. New website makes information more accessible to clients 2. Introduction of CRM software will improve communication	No		NA	Director, Marketing & Communications	
22	Market	AHCC is exposed to market risk due to fluctuations in the Calgary housing market affecting future land and housing inventory sale prices	Reduced real estate values erode margins and increase the risk of write down of inventory and land. Write downs were taken on inventory in 2016, 2017, 2018 and 2019.	High	High		↔	Ownership of standing inventory represents significant risk to AHCC	No	1. Standing inventory being sold in 2019 and forecast to be sold out by 2020 2. Working with clients in Rent to Own pilot program	NA	President & CEO	
23	Regulatory	AHCC is exposed to regulatory risk that impacts our strategy. This includes federal interest rate policy, CMHC fees and regulations, municipal development policies, bank risk appetite	1. Communicate quarterly with CMHC on upcoming changes 2. Market analysis 3. Skills based board across various sectors	Medium	High		↔	1. Federal government stress test has had significant impact on our business 2. Erosion of grant availability has weakened economic performance of projects	No	Ensure all projects are sustainable without reliance on grant funding	NA	President & CEO	