



AGENDA

AUDIT COMMITTEE

February 28, 2019, 9:30 AM
IN THE COUNCIL CHAMBER
Members

Councillor E. Woolley, Chair
Councillor J. Gondek, Vice-Chair
Councillor G-C. Carra
Councillor J. Farkas
Citizen Representative L. Caltagirone
Citizen Representative M. Dalton
Citizen Representative M. Lambert
Mayor N. Nenshi, Ex-Officio

1. CALL TO ORDER
2. OPENING REMARKS
3. CONFIRMATION OF AGENDA
4. CONFIRMATION OF MINUTES
 - 4.1 Minutes of the Regular Meeting of the Audit Committee, 2019 January 31
5. POSTPONED REPORTS
(including related/supplemental reports)
None
6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
 - 6.1 Audit Committee 2018 Year-End Annual Status Report - AC2019-0023
 - 6.2 City Auditor's Office 2018 Annual Report - AC2019-0213
 - 6.3 Annual Control Environment Assessment Audit - AC2019-0214

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS

None

7.2 NOTICE(S) OF MOTION

None

8. URGENT BUSINESS

9. CONFIDENTIAL ITEMS

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Audit Forum (Verbal) - AC2019-0200

Held confidential pursuant to sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *FOIP* Act.

9.1.2 External Auditor (Verbal) - AC2019-0201

Held confidential pursuant to sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *FOIP* Act.

9.1.3 City Auditor (Verbal) - AC2019-0202

Held confidential pursuant to sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *FOIP* Act.

9.1.4 External Auditor 2018 Service Plan Update - AC2019-0273

Held confidential pursuant to sections 24 (Advice from officials) and 26 (Testing procedures, test and audits) of the *FOIP* Act.

Review by 2019 April 17.

9.1.5 Audit Committee 2017-2018 Self-Assessment Update - AC2019-0008

Held confidential pursuant to sections 19 (Confidential evaluations) and 24 (Advice from officials) of the *FOIP* Act.

Review by 2024 February

9.2 URGENT BUSINESS

10. ADJOURNMENT



**MINUTES
AUDIT COMMITTEE**

**January 31, 2019, 9:30 AM
IN THE COUNCIL CHAMBER**

PRESENT: Councillor E. Woolley, Chair
Councillor J. Gondek, Vice-Chair
Councillor G-C. Carra
Councillor J. Farkas
Citizen Representative L. Caltagirone
Citizen Representative M. Dalton
Citizen Representative M. Lambert

ALSO PRESENT: Acting Chief Financial Officer, C. Male
Executive Assistant C. Smillie
City Auditor K. Palmer
External Auditor T. Nakka
Acting City Clerk T. Rowe
Legislative Assistant J. Palaschuk

1. **CALL TO ORDER**

Councillor Woolley called the Meeting to order at 9:33 a.m.

2. **OPENING REMARKS**

Councillor Woolley provided opening remarks.

3. **CONFIRMATION OF AGENDA**

Moved by Councillor Gondek

That the Agenda for the 2019 January 31 Regular Meeting of the Audit Committee be confirmed.

MOTION CARRIED

4. **CONFIRMATION OF MINUTES**

4.1 Minutes of the Regular Meeting of the Audit Committee, 2018 November 20

Moved by Citizen Representative Caltagirone

That the Minutes of the Audit Committee held on 2018 November 20, be confirmed.

MOTION CARRIED

5. POSTPONED REPORTS

None

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 Annual Principal Corporate Risk Report - AC2019-0032

Moved by Citizen Representative Caltagirone

That with respect to Report AC2019-0032, the following be approved:

That Council:

1. Receive this report for information; and
2. Direct that Attachments 1 and 2 remain confidential pursuant to Section 24 (1) (a)&(b) of the *Freedom of Information and Protection of Privacy Act* for a period of 15 years.

3.

MOTION CARRIED

6.2 External Auditor 2017 Management Letter Update - AC2019-0022

Moved by Citizen Representative Lambert

That with respect to Report AC2019-0022, the following be approved:

That the Audit Committee:

1. Receives this Report and attachments for Information; and
2. Recommends that Council receive this Report and attachments for Information.

MOTION CARRIED

6.3 Calgary Parking Authority Asset Management Processes Audit - AC2019-0010

Moved by Councillor Carra

That with respect to Report AC2019-0010, the following be approved:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

MOTION CARRIED

6.4 New Accounting Standards Update (Verbal) - AC2019-0140

Moved by Citizen Representative Caltagirone

That with respect to Verbal Report AC2019-0140, the following be approved:

That the Audit Committee receive this Verbal Report for information.

MOTION CARRIED

7. ITEMS DIRECTLY TO COMMITTEE

7.1 REFERRED REPORTS

None

7.2 NOTICE(S) OF MOTION

None

8. URGENT BUSINESS

None

9. CONFIDENTIAL ITEMS

Moved by Citizen Representative Lambert

That the Audit Committee move into Closed Meeting, at 10:51 a.m., in the Council Lounge, to consider confidential matters with respect to the following items subject to Sections 16, 17, 19, 24, and 26 of the *Freedom of Information and Protection of Privacy Act*:

9.1.1 External Auditor – Provision of Additional Services - AC2019-0082;

9.1.2 Audit Forum (Verbal) - AC2019-0042;

9.1.3 External Auditor (Verbal) - AC2019-0084;

9.1.4 City Auditor (Verbal) - AC2019-0085; and

9.1.5 City Auditor 2018 Performance Review (Verbal) - AC2019-0105

MOTION CARRIED

Committee moved into Public Meeting at 11:59 a.m. with Councillor Woolley in the Chair.

Moved by Councillor Carra

That the Audit Committee Rise and Report.

MOTION CARRIED

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 External Auditor – Provision of Additional Services - AC2019-0082

Administration in attendance during the Closed Meeting discussions with respect to Verbal Report AC2018-0082:

Clerk: T.Rowe and J. Palaschuk, Advice: K. Palmer, C. Male. External Advice: T. Nakka and H. Gill. Observer: C. Smillie

Moved by Citizen Representative Lambert

That with respect to report AC2019-0082, the following be approved:

That the Audit Committee:

1. Approve the Administration Recommendations contained in Report AC2019-0082; and
2. Direct that this Report, Recommendations and Closed Meeting discussions remain confidential pursuant to Sections 16 and 24 of the *Freedom of Information and Protection of Privacy Act* until The City's procurement process is complete.

Further that the confidential status of the report and recommendations be reviewed by 2020 January 31.

MOTION CARRIED

9.1.2 Audit Forum (Verbal) - AC2019-0042

Administration in attendance during the Closed Meeting discussions with respect to Report AC2019-0042:

Clerk: T.Rowe and J. Palaschuk, Advice: K. Palmer, C. Male. External Advice: T. Nakka and H. Gill. Observer: C. Smillie

Moved by Councillor Farkas

That with respect to Verbal Report AC2019-0042, the following be approved:

That the Audit Committee:

1. Receive Verbal Report AC2019-0042 for information; and
2. Direct that the Closed Meeting discussions remain confidential pursuant to Sections 24, 25 and 27 of the *Freedom of Information and Protection of Privacy Act* for an indefinite period.

MOTION CARRIED

9.1.3 External Auditor (Verbal) - AC2019-0084

Administration in attendance during the Closed Meeting discussions with respect to Verbal Report AC2018-0082:

Clerk: T.Rowe and J. Palaschuk, Advice: K. Palmer, C. Male. External Advice: T. Nakka and H. Gill. Observer: C. Smillie

Moved by Citizen Representative Caltagirone

That with respect to Verbal Report AC2019-0084, the following be approved:

That the Audit Committee:

1. Receive Verbal Report AC2019-0084 for information; and

2. Direct that the Closed Meeting discussions remain confidential pursuant to Sections 16 and 24 of the Freedom of Information and Protection of Privacy Act

MOTION CARRIED

9.1.4 City Auditor (Verbal) - AC2019-0085

Administration in attendance during the Closed Meeting discussions with respect to Report AC2019-0042:

Clerk: J. Palaschuk, Advice: K. Palmer, C. Male External Advice: T. Nakka and H. Gill. Observer: C. Smillie

Moved by Citizen Representative Dalton

That the Audit Committee:

1. Receive Verbal Report AC2019-0085 for information; and
2. Direct that the Closed Meeting discussions remain confidential pursuant to Sections 17 and 18 of the Freedom of Information and Protection of Privacy Act for an indefinite period.

MOTION CARRIED

9.1.5 City Auditor 2018 Performance Review (Verbal) - AC2019-0105

Administration in attendance during the Closed Meeting discussions with respect to Verbal Report AC2018-0105:

Clerk: J. Palaschuk

Moved by Citizen Representative Caltagirone

That with respect to Report AC2019-0105, the following be approved:

That the Audit Committee recommends:

1. That Council receive the Verbal Report AC2019-0105 for information; and
2. Direct that the Closed Meeting discussions remain confidential pursuant to Sections 17 and 19 of the *Freedom of Information and Protection of Privacy Act* for an indefinite period.

MOTION CARRIED

9.2 URGENT BUSINESS

None

10. ADJOURNMENT

Moved by Councillor Carra

That this meeting adjourn at 12:02 p.m.

MOTION CARRIED

The following items have been forwarded to the 2019 February 25 Combined Meeting of Council:

Consent:

Annual Principal Corporate Risk Report - AC2019-0032

External Auditor 2017 Management Letter Update - AC2019-0022; and

Calgary Parking Authority Asset Management Processes Audit - AC2019-0010

Consent (Closed Meeting)

City Auditor 2018 Performance Review (Verbal) - AC2019-0105

The next Regular meeting of the Audit Committee is scheduled to be held, 2019 February 28

CONFIRMED BY COMMITTEE ON

CHAIR

ACTING CITY CLERK

**Audit Resource Management Report to
Audit Committee
2019 February 28**

**ISC: UNRESTRICTED
AC2019-0023**

Audit Committee 2018 Year-End Annual Status Report

EXECUTIVE SUMMARY

This is the 2018 year-end Status Report for the Audit Committee 2018 Work Plan, reporting schedule and budget. The activities of the Audit Resource Management Office are also included.

ADMINISTRATION RECOMMENDATION:

That Audit Committee received this Report and Attachment for information.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw 48M2012 states that Audit Committee:

“develops a detailed annual work plan which is forwarded to Council for information.”

Schedule “A”, Section 1(k)

BACKGROUND

The Audit Committee 2018 Year-End Annual Status Report is provided after the conclusion of the year. There are five sections to the Status Report:

- I. Status of Audit Committee 2018 Work Plan and Reporting Schedule
- II. Audit Committee Continuing Education
- III. Status of Audit Committee Budget
- IV. Approval of Audit and Non-Audit Services
- V. Other Status Information

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This Report provides a conclusion to the Audit Committee 2018 Work Plan, the status of the budget at year-end and includes the activities of the Audit Resource Management Office.

Stakeholder Engagement, Research and Communication

No implications for this Report.

Strategic Alignment

The 2018 Year-end Annual Status Report aligns with Council’s Priority of a well-run city; “Calgary’s government is open, responsible, accountable and transparent, delivering excellent services at a fair price. We work with our government partners to ensure we have the tools we need”.

Social, Environmental, Economic (External)

No implications for this report

Financial Capacity

Current and Future Operating Budget:

This Report is based upon budget approvals for the budget cycle 2015-2018.

Audit Resource Management Report to
Audit Committee
2019 February 28

ISC: UNRESTRICTED
AC2019-0023

Audit Committee 2018 Year-End Annual Status Report

Current and Future Capital Budget:

Not applicable.

Risk Assessment

The 2018 Year-end Annual Status Report provides confirmation that Audit Committee has completed their Work Plan for 2018 pursuant to Schedule A of Audit Committee Bylaw 48M2012.

REASON(S) FOR RECOMMENDATION(S):

This Report is a final update on the status of the 2018 Audit Committee Work Plan, budget and provides information on the activities of the Audit Resource Management Office.

ATTACHMENT(S)

Audit Committee 2018 Year-End Annual Status Report

AUDIT COMMITTEE 2018 YEAR-END ANNUAL STATUS REPORT

I. STATUS OF AUDIT COMMITTEE 2018 WORK PLAN

This following provides the original 2018 Work Plan as approved by Audit Committee on 2017 December 14 and received for information by Council on 2017 December 18. Reports added, deferred, brought forward or no longer required are indicated in bold print. The items are arranged by Audit Committee meeting date.

AUDIT COMMITTEE 2018 WORK PLAN		
Meeting	Report Title	Report Number
JANUARY 26 2018	External Auditor 2016 Management Letter Update	AC2018-0026
	Annual Principal Corporate Risk Report	AC2018-0066
	Audit Committee Orientation – Part 2 (not part of Agenda)	Held 2018 January 26
	City Auditor's Office 2018/2019 Audit Plan	2018 Audit Plan – See 2017 Dec 14, AC2017-1204. 2019 Audit Plan - scheduled 2018 Sept.
	Audit Committee 2017 Year-End Annual Status Report	AC2018-0040 – Brought forward from February
	<u>CLOSED MEETING</u>	
	External Auditor – Provision of Additional Services	AC2018-1246 - added
	City Auditor's Performance Review	AC2018-0071
	Audit Forum (Verbal Report)	AC2018-0028
	City Auditor (Verbal Report)	AC2018-0029
	External Auditor (Verbal Report)	AC2018-0030
	----- City Auditor's Office Audit Reports	-----
	Corporate Credit Card (Data Analytics) Audit	AC2018-0035
	Green Line Engagement Audit	AC2018-0007
FEBRUARY 13, 2018	City Auditor's Office 2017 Annual Report	AC2018-0019
	Audit Committee 2017 Year-End Annual Status Report	Brought forward to January

	Annual Update – Information Technology Risk Management Committee Development (not part of Agenda) <u>CLOSED MEETING</u> Audit Forum (Verbal Report) City Auditor (Verbal Report) External Auditor (Verbal Report) ----- City Auditor's Office Audit Reports New Central Library Readiness Audit	AC2018-0133 Deferred to June Executive Assistant to Audit AC2018-0031 AC2018-0032 AC2018-0033 ----- AC2018-0034
MARCH 2018	NO MEETING	
APRIL 17 2018 *Starts: 8:30 am	Control Environment Assessment and Management Representations Update 2017 Annual Investment Report 2017 City of Calgary Annual Report 2017 External Auditor's Year-End Report City Auditor's Office 1 st Quarter 2018 Status Report External Auditor Provision of Additional Services <u>CLOSED MEETING</u> External Auditor Performance Review (Verbal) 2018 Law Department Annual Report Civic Partner Audit Report Audit Forum (Verbal Report) City Auditor (Verbal Report) External Auditor (Verbal Report) ----- City Auditor's Office Audit Reports Cash Flow Management Audit	AC2018-0368 AC2018-0442 AC2018-0473 AC2018-0270 AC2018-0344 AC2018-0450 - added Not required Deferred to June City Solicitor, Law and Legislative Services AC2018-0409 AC2018-0267 AC2018-0269 AC2018-0268 ----- AC2018-0343

	Cyber Incident Response Audit	AC2018-0410
	Procurement Follow-up Audit	AC2018-0413
MAY 2018	<u>NO MEETING</u>	
JUNE 19 (TUESDAY)	ENMAX Audit and Finance Committee Annual Report Calgary Convention Centre Authority – Audit Committee Annual Report Calgary Municipal Land Corporation - Audit Committee Annual Report External Auditor 2017 Management Letter Code of Conduct Annual Report Committee Development (not part of Agenda) One Calgary Presentation by City Manager and General Manager, Planning and Development <u>CLOSED MEETING</u> 2018 Law Department Annual Report City Auditor's Office 2019-2022 Budget Process Audit Forum (Verbal Report) City Auditor (Verbal Report) External Auditor (Verbal Report) ----- City Auditor's Office Audit Reports Employee Expense Audit	ENMAX – deferred to July 25 Meeting AC2018-0529 AC2018-0532 AC2018-0635 AC2018-0794 2018 June 19 Deferred to September City Solicitor, Law and Legislative Services AC2018-0797 AC2018-0337 AC2018-0339 AC2018-0338 ----- AC2018-0756
JULY 25, 2018	ENMAX Audit and Finance Committee Annual Report Calgary Public Library Audit and Finance Committee Annual Report Calgary Arts Development Authority Audit Committee Annual Report Integrated Risk Management Model Update	AC2018-0470 – Deferred from June AC2018-0589 AC2018-0591 AC2018-0911

	<p>City Auditor's Office 2nd Quarter 2018 Status Report</p> <p>External Auditor 2018 Service Plan and Fees</p> <p>Committee Development (not part of Agenda) – <u>CLOSED MEETING</u></p> <p>External Auditor – Provision of Additional Services</p> <p>External Auditor – Provision of Additional Services for Approval</p> <p>City Auditor's Office – 2019-2022 Budget Proposal</p> <p>External Auditor 2017 / 2018 Performance Assessment</p> <p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p> <p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>2017 Municipal Election Review</p>	<p>AC2018-0869</p> <p>AC2018-0913</p> <p>Executive Assistant to Audit – deferred to future date</p> <p>AC2018-0915 - Added</p> <p>AC2018-0928 - Added</p> <p>AC2018-0861 – Brought forward from September</p> <p>AC2018-0914</p> <p>AC2018-0916</p> <p>AC2018-0918</p> <p>AC2018-0917</p> <p>-----</p> <p>AC2018-0852</p>
AUGUST 2018	<u>NO MEETING</u>	
SEPTEMBER 18 (TUESDAY)	<p>Calgary Police Commission Finance and Audit Committee Annual Report</p> <p>Calgary Housing Company Audit and Risk Management Committee Annual Report</p> <p>Attainable Homes Calgary Corporation Audit and Accountability Committee Annual Report</p> <p>City Auditor's Office 2019 / 2020 Audit Plan</p> <p>Calgary Economic Development Audit Committee Annual Report</p> <p><u>CLOSED MEETING</u></p> <p>2018 Law Department Annual Report</p> <p>City Auditor's Office Budget 2019</p>	<p>AC2018-0596</p> <p>AC2018-0597</p> <p>AC2018-0603</p> <p>AC2018-0998</p> <p>AC2018-0602</p> <p>Deferred to October City Solicitor, Law and Legislative Services</p> <p>Brought forward to July</p>

	<p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p> <p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>Open Data Initiative Audit</p>	<p>AC2018-0969</p> <p>AC2018-0971</p> <p>AC2018-0970</p> <p>-----</p> <p>AC2018-1008</p>
OCTOBER 24, 2018	<p>Election of Chair and Vice-Chair – Committee Motion</p> <p>Calgary Economic Development Audit Committee Annual Report</p> <p>Calgary Parking Authority Audit Committee Annual Report</p> <p>Committee Development (not part of Agenda)</p> <p>City Auditor's Office 3rd Quarter 2018 Status Report</p> <p>Information Technology Challenges and Opportunities</p> <p><u>CLOSED MEETING</u></p> <p>2018 Law Department Annual Report</p> <p>Audit Committee Annual (2017-2018) Self-Assessment</p> <p>Audit Forum (Verbal Report)</p> <p>City Auditor (Verbal Report)</p> <p>External Auditor (Verbal Report)</p> <p>-----</p> <p>City Auditor's Office Audit Reports</p> <p>Real Estate Acquisitions Audit (Green Line LRT Stage 1)</p> <p>Plebiscite Readiness Review</p>	<p>Deferred to November – City Clerks and Chair</p> <p>Brought forward to September</p> <p>AC2018-0601</p> <p>Deferred to November Executive Assistant to Audit</p> <p>AC2018-1246</p> <p>AC2018-1210 - Added</p> <p>Deferred to November City Solicitor, Law and Legislative Services</p> <p>AC2018-1177</p> <p>AC2018-1173</p> <p>AC2018-1176</p> <p>AC2018-1175</p> <p>-----</p> <p>AC2018-1032</p> <p>AC2018-1247</p>
NOVEMBER 20 (TUESDAY)	<p>Election of Chair and Vice-Chair – Committee motion</p>	<p>Deferred from October – City Clerks and Chair</p>

	Audit Committee Orientation (not part of Agenda) Audit Committee 2019 Work Plan 2018 Law Department Annual Report Committee Development (not part of Agenda) Status of Community Associations and Social Recreation Organizations on City-Owned Land <u>CLOSED MEETING</u> Audit Committee Self-Assessment (2017-2018) Audit Forum (Verbal Report) City Auditor (Verbal Report) External Auditor (Verbal Report) ----- City Auditor's Office Audit Reports Bonnybrook Plan D Expansion Audit	Executive Assistant to Audit Deferred to December AC2018-1319 AC2018-1350 Not required AC2018-1099 Postponed from October 24, AC2018-1177 AC2018-1320 AC2018-1322 AC2018-1321 ----- AC2018-1346
DECEMBER 2018	NO MEETING	

II. AUDIT COMMITTEE CONTINUING EDUCATION

Audit Committee members serving for the 2017-2018 term were provided with the second part of an Orientation session on January 26, 2018. Presentations were provided by the Director of Finance/City Treasurer and by the External Auditor (Deloitte LLP).

Audit Committee members serving for the 2018-2019 term were provided with an Orientation session on 2018 December 18. Presentations were provided by the City Auditor, External Auditor, and Acting Chief Financial Officer to the Audit Committee.

The Finance Department provided Audit Committee citizen members with a presentation on City of Calgary investments on June 7, 2018.

Attainable Homes Calgary Corporation provided citizen members with a presentation to familiarize them with their business model on September 6, 2018.

Several members of the Audit Committee were invited to a Hedging Risk Management Discussion at ENMAX on December 6, 2018.

III. STATUS OF AUDIT COMMITTEE BUDGET

The Audit Committee Bylaw 48M2012 provides for the Committee to develop a budget and recommend it to Council as part of The City's budget process. The Committee's operating budget for 2018 was approved by Council in November 2014 as part of the four-year budget cycle.

The Audit Committee's 2018 total operating budget was \$748,917. There was a positive variance of \$190,072 at the end of 2018 December. The variance mainly relates to the remaining balance in consulting fees, a surplus in the areas of salaries, benefits and business expenses.

IV. APPROVAL OF AUDIT AND NON-AUDIT SERVICES

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

"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."

Schedule "B", Section 1(b).

There were no pre-approvals by the Chair of Audit for additional audit or non-audit services performed by the External Auditor in 2018.

IV. OTHER STATUS INFORMATION

A) Autonomous Civic Entities

In accordance with Schedule 'A', Section 1 i) of Bylaw 48M2012, Audit Committee Bylaw, the Audit Committee oversees its governance responsibility with the audit committees of The City's major autonomous bodies. The following entities made annual presentations to the Audit Committee in 2018:

Attainable Homes Calgary Corporation - AC2018-0603
Calgary Arts Development Authority - AC2018-0591
Calgary Convention Centre Authority - AC2018-0529
Calgary Economic Development - AC2018-0602
Calgary Housing Company - AC2018-0597
Calgary Municipal Land Corporation - AC2018-0532
Calgary Parking Authority - AC2018-0601
Calgary Police Commission - AC2018-0596
Calgary Public Library - AC2018-0589
ENMAX Corporation - AC2018-0470

B) City Auditor's Office Reports

In accordance with Bylaw 30M2004, the City Auditor Bylaw, the Audit Committee oversees and ensures the accountability of the City Auditor on behalf of Council. The Audit Committee received and reviewed the following reports and audits from the City Auditor's Office in 2018:

Corporate Credit Card (Data Analytics) Audit - AC2018-0035
Green Line Engagement Audit - AC2018-0088
New Central Library Readiness Audit - AC2018-0034
City Auditor's Office 2017 Annual Report - AC2018-0019
City Auditor's Office 1st Quarter 2018 Report - AC2018-0344
Cash Flow Management Audit - AC2018-0343
Procurement Follow-up Audit - AC2018-0413
Cyber Security Incident Response Audit - AC2018-0410
Employee Expense Audit - AC2018-0758
City Auditor's Office 2019-2022 Budget Process - AC2018-0797
2017 Municipal Election Review - AC2018-0852
City Auditor's Office 2nd Quarter 2018 Report - AC2018-0860
City Auditor's Office – 2019-2022 Budget Proposal - AC2018-0861
Open Data Initiative Audit - AC2018-1008
Real Estate Acquisitions Audit (Green Line LRT Stage 1) - AC2018-1032
Plebiscite Readiness Review - AC2018-1247
City Auditor's Office 3rd Quarter 2018 Report - AC2018-1246
City Auditor's Office 2019-2020 Audit Plan - AC2018-0998
Bonnybrook Plan D Expansion Audit - AC2018-1346

At every Audit Committee during the closed meeting the City Auditor was provided with an opportunity to discuss any confidential matters with the Committee in the absence of both Administration and the External Auditor.

C) External Auditor

The External Auditor (Deloitte LLP) submitted the following reports in 2018 for Audit Committee review:

External Auditor 2016 Management Letter Update - AC2018-0026
External Auditor – Provision of Additional Services – AC2018-0064
2017 External Auditor's Year-End Report - AC2018-0270
External Auditor – Provision of Additional Services – AC2018-0450
External Auditor 2017 Management Letter - AC2018-0635
External Auditor 2018 Service Plan and Fees - AC2018-0913
External Auditor – Provision of Additional Services – AC2018-0915
External Auditor – Provision of Additional Services Approval Request – AC2018-0928

At every Audit Committee during the closed meeting the External Auditor was provided with an opportunity to discuss any confidential matters with the Committee in the absence of Administration and the City Auditor.

D) Financial Integrity and Risk Management

The Audit Committee maintained its focus on financial integrity and corporate risk management in 2018. In accordance with Schedule 'A', the Audit Committee Terms of Reference, Audit Committee Bylaw 48M2012, the following reports were reviewed by the Audit Committee:

Annual Principal Corporate Risk Report - AC2018-0066
2017 City of Calgary Annual Report - AC2018-0473
Control Environment Assessment and Management Representations Update
- AC2018-0368
2017 Annual Investment Report - AC2018-0442
2018 Law and Corporate Security Report - AC2018-1350
Annual Update - Information Technology Risk Management - AC2018-0133
Information Technology Challenges and Opportunities - AC2018-1210
Code of Conduct Annual Report - AC2018-0794
Integrated Risk Management Program Update - AC2018-0911
Civic Partner Audit Report - AC2018-0409
Status of Community Associations and Social Recreation Organizations on City-Owned
Land - AC2018-1099

At every Audit Committee during the closed meeting the Chief Financial Officer was provided with an opportunity to discuss any confidential matters with the Committee in the absence of the City Auditor and the External Auditor.

E) Audit Resource Management Office

The Audit Committee Bylaw 48M2012 established the position of Executive Assistant to the Audit Committee to provide planning, documentation and meeting logistical support under the direction of the Committee Chair.

Executive Assistant Reports reviewed by Audit Committee in 2018:

Audit Committee 2017 Year-End Annual Status Report - AC2018-0040
Audit Committee 2018 April Meeting Date Change - AC2018-0027
External Auditor 2017 - 2018 Performance Assessment - AC2018-0914
Audit Committee Annual Self-Assessment (2017-2018) - AC2018-1177
Audit Committee 2018 Work Plan - AC2018-1319

CITY AUDITOR'S OFFICE 2018 ANNUAL REPORT

EXECUTIVE SUMMARY

This report presents the City Auditor's Office 2018 Annual Report. The report provides an overview of the activities undertaken by the City Auditor's Office from January 1, 2018 to December 31, 2018.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receives this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 established the position of City Auditor and the powers, duties and functions of the position. The City Auditor is subject to the supervision of and accountable to Council, and reports to Council through Audit Committee.

Bylaw 48M2012 states that Audit Committee is responsible for:

- Overseeing the performance of the City Auditor;
- Overseeing, through the City Auditor, the Whistle-blower Program.

Section 7 (b) of Schedule A of Bylaw 48M2012 states that Audit Committee: "receives for information an annual audit report on the Whistle-blower Program and forwards to Council for information".

Section 1 (f) of Schedule C of Bylaw 48M2012 states that Audit Committee: "reviews and forwards to Council for information, the City Auditor's Office quarterly and annual status reports".

Section 2 (b) of Schedule C of Bylaw 48M2012 states that the City Auditor: "must submit the annual status report to Council for information after review by the Audit Committee".

Council Policy CC026, *Whistle-blower Policy*, states that the City Auditor "will report, at least on an annual basis, information related to reports received and investigations conducted during the year to Council through the Audit Committee".

BACKGROUND

The 2018 Annual Report summarizes the activities of the City Auditor's Office (CAO) in 2018. The report highlights significant activities carried out by the CAO and is presented to assist Audit Committee in its oversight responsibilities of the CAO. The mission of the CAO is to "Provide independent and objective assurance, advisory and investigative services to add value to The City of Calgary and enhance public trust". This annual report demonstrates how the CAO is fulfilling its mission through delivering these services during 2018.

CITY AUDITOR'S OFFICE 2018 ANNUAL REPORT

In 2018, utilizing a complement of 16 staff and a budget spend of \$2.7M, the CAO:

- Carried out audit, advisory and investigative activities across approximately 68% of all City Business Units;
- Completed twelve audits and initiated a further eight audits;
- Raised 55 audit recommendations resulting in 74 action plans, and monitored the closure of 76 action plans to support positive change; and
- Closed 34 whistle-blower investigations.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

Stakeholder Engagement, Research and Communication

The CAO collaborates with the relevant teams from Administration in completing all audit and advisory projects. The final deliverable or audit report is shared with Administration prior to presentation to Audit Committee.

The Whistle-blower Policy assigns responsibilities to the City Auditor and the City Manager to develop, implement and maintain an effective program. The results of all investigations are reported to the responsible General Manager and/or City Manager for action as appropriate. Any disciplinary action resulting from a substantiated report is the responsibility of management and shall be taken in accordance with Administration Policy HR-LR-002, *Labour Relations Policy*.

Strategic Alignment

The CAO Annual Report provides Audit Committee and Council with information to support their oversight responsibility of the CAO. The activities of the CAO 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 CAO serve to promote accountability, mitigate risk, and support an effective governance structure.

CITY AUDITOR'S OFFICE 2018 ANNUAL REPORT

REASONS FOR RECOMMENDATIONS:

1. Audit Committee has oversight responsibilities of the City Auditor's Office.
2. Bylaw 48M2012 states the Audit Committee "reviews and forwards to Council for information, the City Auditor's Office quarterly and annual status reports."
3. Bylaw 48M2012 states that Audit Committee "receives for information an annual audit report on the Whistle-blower Program, and forwards to Council for information."

ATTACHMENT

AC2019-0213 CITY AUDITOR'S OFFICE 2018 ANNUAL REPORT

City Auditor's Office 2018 Annual Report



Calgary

City Auditor's Office



Message from The City Auditor

Thank-you for reading this 2018 City Auditor's Office (CAO) Annual Report, representing the fifth annual report issued since my arrival in 2013. It is and remains an honour and privilege to serve as your City Auditor, and an extreme pleasure to lead the CAO team of highly experienced and effective professionals.

Our 2018 CAO Annual Report provides highlights of our important work providing independent and objective assurance, advisory and investigative services, which delivers value and supports greater public trust to Calgarians.

We support effective governance through our regular reporting to Audit Committee on our assurance audits and advisory work. We also continue to provide a comprehensive Whistle-blower Program (WBP) that operates with high integrity and is available to both City employees and citizens. Results of our work are reported publicly on the CAO webpages at www.calgary.ca/auditor and include recommendations and action plan commitments that support The City's common purpose to make life better every day for the citizens of today and tomorrow. Our success in supporting positive change is visible, both in immediate improvements as well as year over year efficiencies. I am pleased to share these positive change success stories in this report.

In 2018, we delivered 55 valued recommendations from 12 audits completed and monitored the closure of 76 action plans. We completed 34 whistle-blower investigations which in turn generated 63 corrective actions. During this same year we provided ongoing advisory services focused on fostering best practices, innovation, and operational improvement. We delivered these services with a staff of 16 and an intentional conservative budget spend of \$2.7M.

Our value in providing essential audit services was recognized in the recent Council approval of our 2019-2022 One Calgary 4-year budget. In our plan submission we reiterated our commitment to continue and where possible enhance delivery of services which support key values of risk reduction, reliability, responsiveness and resilience. In 2019, we will continue to provide reliable public reporting on audit results, ensure responsiveness to emerging risks, utilize a risk-based approach and strengthen our office resiliency to deliver even more in the years to come.

The CAO is your independent and objective body and is committed to delivering the highest standards and best practices of a high performing audit office in the public sector.

Katharine Palmer, CIA, CFE, MBA
City Auditor

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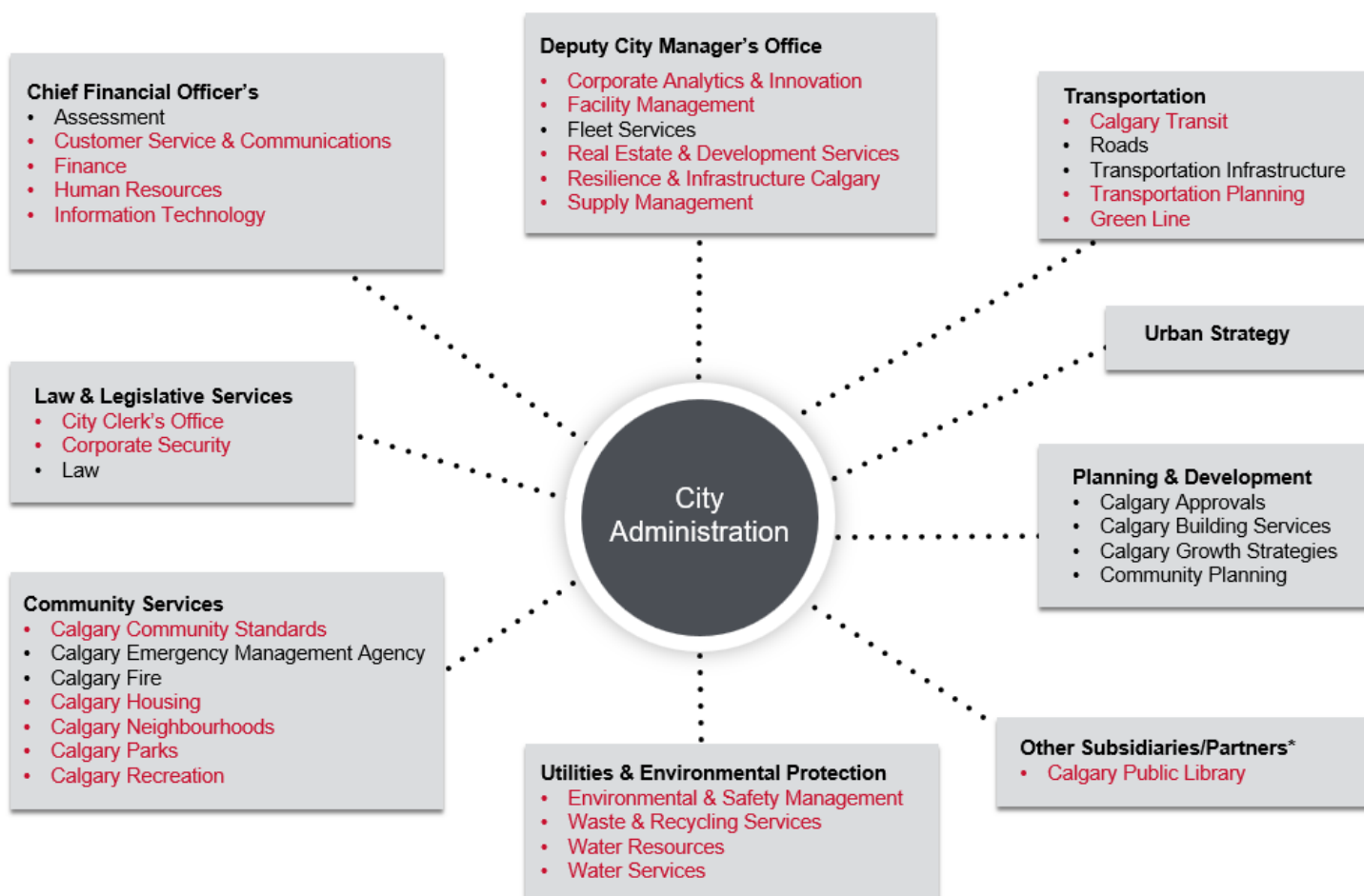
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1.0 Our Coverage

1.1 Annual Activities

During 2018, the CAO audit, advisory and investigative services provided significant interaction with 68% of the Business Units within The City of Calgary (The City). The nature of our audit work, also included activity with one of our City subsidiaries/partners. Our extensive coverage, as highlighted in red text, provided us with greater insight into challenges and opportunities faced by the corporation, and increased our agility to provide valued advice in response to key risks.

The CAO was able to achieve this coverage due to the effective collaborative relationship that exists with Administration and the office's professional team of 16 staff. During Q1, 2018, the CAO also reviewed and made updates to both the City Auditor's and WBP's websites to provide increased transparency and understanding of our services.




*Calgary Public Library is one of The City's subsidiaries/partners.



1.2 Audits Completed

The CAO audit work continues to benefit from our data analytics resources and expertise. Our audits, in many cases, utilize data analytics to look broadly at all related transaction activity in our evaluation of assurance. The CAO uses specialized software, on an ongoing basis, to identify transactions that warrant further review and to assess risk indicators. The CAO has established scripts to provide greater insight into corporate credit card data, employee expense transactions, procurement-related transaction activity, accounts payable data, and employee overtime data. Data analytics also supports WBP investigations. The CAO continues to develop new scripts as well as providing maintenance of existing scripts to support continuous monitoring capability. Where appropriate, the CAO has shared its methodologies and data with Administration leaders to support and enhance their oversight and governance effectiveness.

During 2018, the CAO finalized 12 audits and initiated an additional eight audits. The  symbol indicates audits that utilized data analytics extensively. Full details of the status of all audits at year-end can be found in Appendix A. Summaries of finalized audits are set out below.

Deputy City Manager's Office

Procurement Follow-up (AC2018-0413)

The objective of the Procurement Follow-up audit was to conduct a follow-up audit on the effectiveness of management actions and business risk mitigation in response to selected audit recommendations raised in the AC2010-41 Procurement Phase 2 audit. Specifically, the audit focused on management actions to address the following original recommendations:

- Establish sole sourcing criteria, and review and monitor approval and use of sole sourcing. The intent was to cover both sole and single sourcing activities.
- Monitor Purchase Orders and Change Orders to identify and follow-up on irregularities and escalate as appropriate.

The audit identified that controls were implemented to review and monitor sole and single source procurement. Controls originally implemented to monitor Purchase Orders and Change Orders had either been replaced or had not been maintained as intended. Although the risk exposure was limited, there were opportunities to enhance controls. We raised three recommendations to further support open, transparent and best value procurement practices through consistent delivery of single and sole source procurement, and timely identification, escalation and resolution of irregularities that could be indicators of wrongdoing.

Open Data Initiative (AC2018-1008)

The objective of the Open Data Initiative audit was to evaluate the effectiveness of current processes and governance practices that support successful achievement of the City's Open Data Initiative goals, based on key criteria from a best practice document produced by Canada's Open Data Exchange¹.

Results of our audit noted the Open Data Initiative governance practices and processes are effective to ensure completeness, accuracy, usability and adherence to FOIP for the published data. However, the current open data strategy lacked clarity on long-term objectives and vision. In addition, key performance indicators relevant to the achievement of the Open Data Initiative's objectives, and Open Data Initiative's costs and benefits were not established. Two recommendations were raised to further enhance the open data strategy and to define, track and report performance measures related to the Open Data Initiative's objectives. Five additional recommendations were included in the report to support improved governance reporting, customer feedback process, and clarification of roles and responsibilities for data stewards.

Adding Value: Open Data Initiative

"I believe the recommendations [in the report] are well aligned for clarifying the strategic direction of the program and for ensuring that the program matures appropriately." Manager, Innovation and Data, Corporate Analytics and Innovation.

Chief Financial Officer

Corporate Credit Card (Data Analytics) (AC2018-0035)

The objective of this audit was to review the anomalies in the Corporate Credit Card (CCC) data analytic results and provide assurance on the effectiveness of related compliance and fraud prevention controls. This was achieved through testing associated credit card monitoring controls and validating the results of our data anomalies with Accounts Payable (AP).

The audit utilized data analytics to examine anomalies in credit card data from June 2016 to June 2017. Through our review of these anomalies we confirmed that a majority were indicative of non-compliance to CCC policy and procedures. We determined that existing monitoring controls over CCC were generally operating as designed, however, despite AP's monitoring practices, non-compliance to CCC policy continued to occur. We made three recommendations related to employee training and communication, enforcing accountability to individual cardholders, developing escalation steps to support card suspension and improving efficiency and effectiveness of CCC processes. We also made one recommendation to re-evaluate the process to capture GST on foreign transactions.

Cash Flow Management (AC2018-0343)

The mandate of The City's Treasury division includes "to generate investment income while preserving capital and provide liquidity for the cash flow requirements of all City funds." Cash flow management, including forecasting daily City cash requirements, is a critical input to this mandate, particularly given the significant variances in daily inflows and outflows of cash that The City experiences. The objective of this audit was to assess the effectiveness of The City's cash flow forecast process by assessing the design and operation of controls and key sub-processes that mitigate the following risks:

- The cash flow forecast cannot be completed on a timely basis;
- Data inputs used to create the cash flow forecast are inaccurate or incomplete; and
- Data outputs from the cash flow forecast are inaccurate due to errors in analysis.

We concluded that Treasury's current cash flow forecasting process was effective in design and operation in mitigating the risks identified (i.e. timeliness, and accuracy) and supported The City's informal cash flow management strategy. Three of four recommendations were raised to provide additional reliability and rigour to the existing process. We also raised a fourth recommendation that Treasury increase transparency through inclusion of the cash flow management strategy in quarterly and annual investment reporting.

¹ Open Data Exchange: Open Data Blueprint - Helping municipalities think differently about open data.

Cyber Security Incident Response (AC2018-0410)

The objective of this audit was to determine if The City has an incident response process that will reduce the impact of a non-routine cybersecurity incident. The audit objective was achieved by evaluating controls across each of the four phases of the incident response cycle:

1. *Preparation*: Establishing an incident response capability so the organization is ready to respond to incidents.
2. *Detection and Analysis*: Determining whether an incident has occurred and, if so, the type, extent, and magnitude of the problem.
3. *Containment, Eradication, and Recovery*:
 - a. Containment - provide time for developing a tailored remediation strategy.
 - b. Eradication - eliminate components of the incident, such as disabling breached user accounts.
 - c. Recovery - restore systems to normal operation, confirm that the systems are functioning normally, and (if applicable) remediate vulnerabilities to prevent similar incidents.
4. *Post-Incident Activity*: Learning from the incident by reviewing what happened and how staff and management performed in dealing with the incident since lessons learned improve future responses.

Due to the nature of this audit, results were provided in a confidential report.

Employee Expense (AC2018-0756)

City of Calgary employees incur expenses in the course of conducting City business, such as, travel, meals, training and development and professional fees and dues. In 2017, The City paid approximately \$4.5M for employee expenses for out of town travel, courses, memberships, parking, and car allowances. Non-compliance with policies and misalignment with The City's shared values and the 4Cs can result in payment for inappropriate expenses, unnecessary costs and reputational damage. The objective of this audit was to assess employee expenses for compliance with City policies and alignment with The City's shared values and the 4Cs, and identify efficiency and cost saving opportunities.

Adding Value: Employee Expenses

"I am increasingly impressed by the professionalism and collaborative nature of the CAO staff conducting the audits. Audits are conducted with the minimum of disruption, and reporting and developing recommendations and responses are always a very collaborative process." Manager, Tax, Receivables, and Accounts Payables, Finance

All employee reimbursements and CCC expenses tested in our sample complied with applicable City policies and aligned with The City's shared values and 4Cs. In addition, a year-over-year downward trend on total employee expenses from January 1, 2015 to December 31, 2017 may be viewed as a positive result of Administration's intentional management of controllable costs. We raised two recommendations to enhance policy and guidance on the use of personal vehicles, and consistent course reimbursement. We also made two recommendations related to opportunities to improve efficiency by automating the employee expense reimbursement process and reducing the 100% validation of expense claims to a sample approach.

Law & Legislative Services

2017 Municipal Election Review (AC2018-0852)

The last Calgary election was held on October 16, 2017. The public expressed concerns about their Election Day experience, including long line ups at voting stations and delays in reporting of election results. The City responded to these concerns on October 17, 2017, confirming the accuracy of election results and compliance with legislation, as well as committing to improving election processes. As part of the process improvement initiative, the City Clerk/Returning Officer requested that the CAO undertake a root cause analysis review.

Our root cause analysis identified four significant contributing factors that led to increased voter wait times, voting station accessibility concerns and delays in the reporting of election results on Election Day. Three significant contributing factors, if not addressed, could result in the reoccurrence of increased voter wait times and accessibility concerns in future elections:

- Insufficient initial ballot supply;
- Insufficient voting station selection process; and
- Absence of a detailed staffing plan.

A fourth contributing factor which delayed the reporting of Election Day results was insufficient After the Vote procedures to support voting stations in accounting for ballots supplied, completing the ballot count, and communicating results to the Elections Office. We raised four recommendations to minimize the identified contributing factors and to improve voter experience during the next 2021 Election Day.

Adding Value: Plebiscite Readiness Review

“The Review confirmed that these changes [to provide an improved voter experience] were an appropriate approach to future elections and provided confidence for delivery of Vote 2018.”
Manager, Elections & Census

Plebiscite Readiness Review (AC2018-1247)

The CAO conducted a Plebiscite Readiness Review at the request of the City Clerk/Returning Officer to validate plebiscite readiness and support greater transparency on actions taken by Election and Census Services to provide an improved voter experience. The objective of the readiness review was to provide independent validation on Election and Census Services documented procedures and processes which support:

- Appropriate ballot distribution plans;
- Efficient design of voting station process to mitigate queue line ups;
- Appropriate end of night count processes;
- Timely escalation and resolution of issues; and
- Effective functionality of the tabulator.

Results of our review, as of September 26, 2018 noted significant readiness work effort underway in the form of draft processes, business rules, and end-to-end testing plans, which addressed appropriate ballot distribution, and timely escalation and resolution of issues. Other key activities were in first stages of development and could not be fully validated or confirmed at the time of the review. These key activities included the end of night tabulator count and reconciliation. It is important to note our independent validation was specific to draft documentation and plans, many of which were undergoing final amendments at the time of the audit review.

Utilities and Environmental Protection

Bonnybrook Plant D Expansion (AC2018-1346)



The Bonnybrook Wastewater Treatment Plant's Plant D Expansion Project (the Project) will increase the Plant's treatment capacity by 30% to service projected population growth in Calgary and the surrounding communities, with a projected cost of \$636M. The Project comprises 14 Work Packages. Project planning began in 2013, construction in 2016, and completion is expected in 2025. The objective of the audit was to assess the effectiveness of The City's project management of the Project. The objective was achieved by evaluating the design and operation of project controls that mitigate schedule, safety, quality, and environmental risks.

We concluded that overall, the project management team have designed and implemented project controls that mitigate schedule, safety, quality, and environmental risks. We made four recommendations to increase efficiency of controls through improvement in oversight, monitoring, and reporting.

Other Subsidiaries and Partners

New Central Library Readiness (AC2018-0034)



This was the third and last of three sequenced audits of the New Central Library project, which was a significant build with a budget of \$245M, and an Opening Day date of November 1, 2018. The objective of the audit was to assess the readiness of the Calgary Public Library to assume responsibility for the New Central Library. Readiness was defined for this audit as the ability to provide library services in the New Central Library throughout the first month of operation.

We concluded that the Calgary Public Library was on track to achieving their move-in and usage targets by setting the planning and process to deliver key services/programs, ensuring that key building operations were in place, and managing security incident risks. We raised three

recommendations focused on refining transition objectives, and associated monitoring and reporting to further assist Calgary Public Library in ensuring that key services and training goals were fully achieved by Opening Day.

Transportation

Green Line Engagement (AC2018-0088)

The Green Line Light Rail Transit project has an estimated construction cost of \$4.65B for the first stage of construction. The CAO plans to conduct a series of audits on the Green Line infrastructure project. This first Green Line audit, focused on citizen engagement, was undertaken since obtaining input from Calgarians and other stakeholders on integration with existing communities, route alignment, station locations, and opportunities for Transit Oriented Development is critical, given the significant investment in the Green Line Project. The Engage Policy defines engagement as the purposeful dialogue between The City and stakeholders to gather information to influence decision making. The objective of this audit was to assess the effectiveness of engagement control activities that supported the advancement of the Green Line Project. We evaluated the extent to which engagement activities were aligned with The City's Engage Policy and the criteria in the Engage Framework and Tools.

Overall, engagement activities reviewed were executed in alignment with the guiding principles of the Engage Policy. To further support transparency and accountability, we raised six recommendations to improve the Reporting Back and Evaluation steps in the engagement process and the process to track and monitor communication and engagement costs. Although the audit focused on engagement activity specific to Green Line, two of the recommendations related to opportunities to update the Engage Framework and Tools to provide further standards and guidance that will benefit all future engagement at The City.



Real Estate Acquisitions (Green Line LRT Stage 1) (AC2018-1032)

Adding Value: Real Estate Acquisitions (Green Line LRT Stage 1)

"It's been a pleasure working with you and the rest of the team. Your feedback has been valuable and appreciated." Senior Manager, Project Access, Green Line

This second Green Line audit focused on real estate acquisitions for Stage 1 since land acquisition represented one of the highest risks to the project's ability to move forward with construction, which is expected to be complete by 2026.

To support the expected construction schedule and mitigate the risk of contractor delay claims, an acquisition program was initiated to acquire required properties no later than March 31, 2020. The objective of the audit was to provide assurance that the real estate team had effective controls and risk mitigation processes to support achievement of their business objective, which was timely acquisition of all land for the Green Line Stage 1.

The real estate team had an established process to manage land acquisitions and controls to mitigate the risks of acquiring land at unfavourable prices or conditions were designed and operating effectively. We identified two areas where control enhancements were required to mitigate the risk of not meeting the project execution plan and of ineffective environmental due diligence. Ineffective communication and escalation of delays to the acquisition of required properties may impede the timely completion of the land acquisition portion of the project. In addition, roles and responsibilities for environmental review were not clearly defined for large projects resulting in the risk that environmental due diligence was not effective, and environmental liabilities and remediation costs were not identified and communicated. We raised two recommendations specific to the issue communication and escalation process, and three related to the environmental due diligence process.

1.3 Advisory Services

The CAO provides advisory services on an ad hoc or project basis as requested by Administration. The intent of our advisory services is to provide an independent view and best practice insight on current, new or emerging risks and opportunities facing The City based on our knowledge of best practice on risks, controls and governance frameworks along with our deep understanding of City strategies, culture and organization. During 2018, the CAO provided advisory services to a number of areas including:

- The City's Infrastructure Calgary Steering Committee as an advisory member;
- The City's Corporate Project Management Framework Steering Committee as an advisory member;
- A committee of City Business Units by providing advice on an update of provincial legislation.

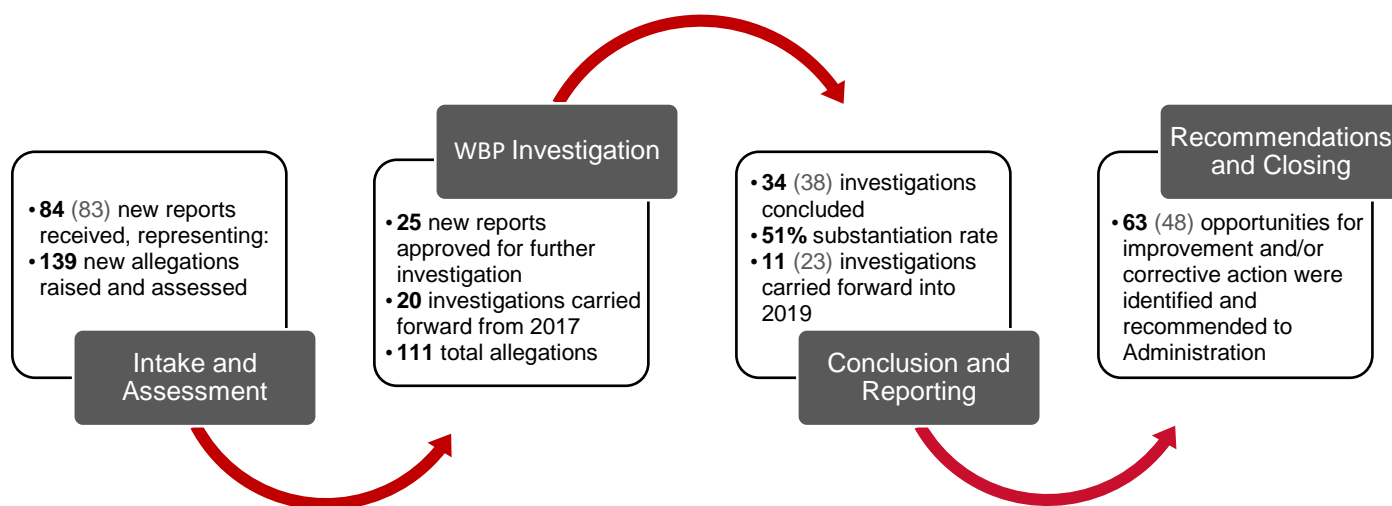
As an independent group, without affiliation to a particular Business Unit or Directorate, the CAO is uniquely positioned to provide value-add advice. In providing these services we utilize the full expertise of our team including the specialized skills of our Audit Manager, IT, who ensures the CAO keeps current on City technology changes and related emerging risks. As a combined team we have expertise across internal audit, fraud, accounting, IT, project management and engineering, supported by the following categories of professional designations.

Professional Categories	Number of Staff
Internal Audit	11
Fraud	3
Accounting	7
IT	4
Project Management	2
Professional Engineer	1

1.4 Investigative Services

During 2018, the WBP, which is operated independently through the CAO, received reports from employees and Calgarians pertaining to a variety of concerns involving City employees and/or operations throughout The City at a volume level consistent with prior years. Reporting activity is positively regarded as an indication that awareness of the WBP, and employee confidence to report concerns, exists across the organization.

WBP activity for the year ending December 31, 2018 (numbers in brackets represent 2017 activity):

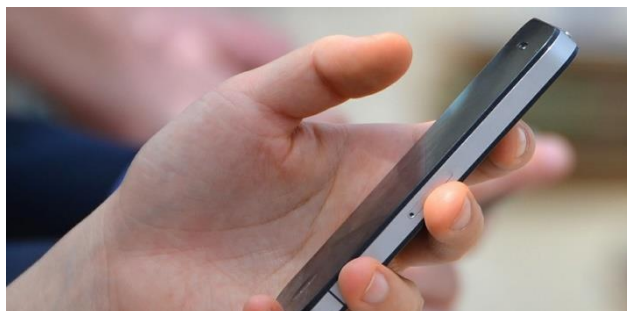


WBP procedures require all whistle-blower reports involving any staff member of the CAO to be assessed independently by the Chair, Audit Committee. Reports submitted online and identified as sensitive are automatically redirected for confidential review only by the Chair, Audit Committee. On determination that a report does not involve a staff member of the CAO and can be objectively assessed by the WBP, it is redirected to the WBP and is no longer considered sensitive. The WBP has received confirmation from the Chair, Audit Committee that all sensitive reports received in 2018 were appropriately assessed and are considered closed.

Procedural enhancements and efficiencies applied to the WBP in recent years continue to improve timely assessment and response to concerns reported in 2018, resulting in:

- ✓ 67% decrease in outstanding investigations involving reports made in prior years
- ✓ 33% decrease in open files carried forward to 2019 compared to prior year
- ✓ 49% decrease in average days required to complete investigations compared to prior year

Anonymous Reporting



Council Policy CC026 Whistle-blower Policy supports anonymous (Anon.) reporting facilitated through a confidential, two-way, third party communication channel to support a reporter who may not feel comfortable disclosing their identity to the WBP office.

Where the reporter's identity remains undisclosed, The City cannot provide the reporter protection against reprisal. WBP activity over the last three years reflects the ongoing need and demand for this option for specific reporters.

Year report submitted	2018 ²		2017		2016	
	Anon.	Non-Anon.	Anon.	Non-Anon.	Anon.	Non-Anon.
Reports submitted and assessed	61	22	57	26	55	38
Reports approved for investigation	20 (33%)	5 (23%)	19 (33%)	6 (23%)	27 (49%)	13 (34%)
Allegations ³ approved for investigation	35	14	47	24	40	17
Allegations investigated and substantiated ⁴	17	-	18	6	19	3
Substantiation rate ⁵	49%	-	38%	25%	47%	18%
Corrective actions recommended	24	-	36	5	37	8

- ✓ **More anonymous reports** - Anonymous WBP reports consistently outnumber reports in which individuals self-identify. While specific reasons may not be known to the WBP, the use of anonymity can be indicative of a number of factors including the existence of real or perceived fears of reprisal or judgment related to reporting, and is not unexpected. Although 2018 figures are not yet available, 2016 and 2017 figures published by NAVEX Global⁶ reported the receipt of a slightly greater number of anonymous reports (56% and 58%, respectively⁷) than those where reporting individuals disclosed their identity.
- ✓ **Effective assessment process** - While anonymity is not a factor in the objective assessment applied to each allegation raised and decision to investigate or not, results in the last three years found more allegations raised anonymously have met the threshold for investigation than those raised without anonymity. Only those allegations meeting basic whistle-blower criteria⁸ meriting further investigation are advanced through the WBP process. Since 2016, the WBP assessment process has filtered 55% of allegations raised as not meriting further investigation by the WBP, resulting in their referral to Administration or no further action.
- ✓ **High substantiation rate** - A higher substantiation rate may be indicative of an informed reporter who, familiar with what constitutes a breach or violation of policy or procedure, submits a timely report with a sufficient level of specifics critical in supporting investigation of allegations raised. Specifically for employees, this rate can be further attributed to ongoing Code of Conduct training and awareness of available reporting options. Although not all allegations investigated are substantiated, an unsubstantiated allegation does not necessarily mean the report was without merit. Recommendations to Administration can still result from investigation of an unsubstantiated allegation.

The use of anonymity to report is a personal choice. While availability of anonymous reporting is widely regarded as a best practice and a critical component of effective corporate governance, confidential disclosure of an employee's identity to the WBP is necessary in order to provide full protection against reprisal. WBP procedures carefully consider confidentiality throughout the investigation, and the disclosure of information is limited and made only on a need-to-know basis or as required by law.

² A number of allegations raised in 2018 remain under investigation and their conclusion in 2019 will result in changes to figures reported at December 31, 2018.

³ A report can contain multiple allegations.

⁴ Figures provided are from concluded investigations only; investigations related to non-anon allegations are still proceeding into 2019.

⁵ Substantiation rate is determined by dividing allegations substantiated by total allegations investigated.

⁶ NAVEX Global maintains the world's largest database of report data obtained from 13,000 global clients representing in excess of 42 million employees.

⁷ 2018 Ethics & Compliance Hotline and Incident Management Benchmark Report.

⁸ Basic reporting criteria necessary to support investigation is provided at www.calgary.ca/whistle.

2.0 Our Impact

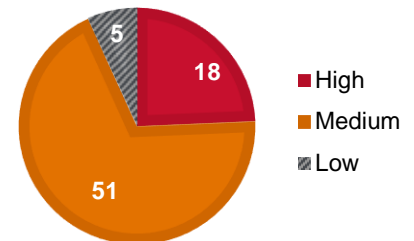
2.1 Audit Recommendations

The CAO takes a risk-based approach to the planning and execution of audits. Each audit focuses on key risks to the achievement of Administration's objectives, which supports meeting City Priorities. During planning, we work with staff to gain a thorough understanding of the area, project or process being audited and key risks.

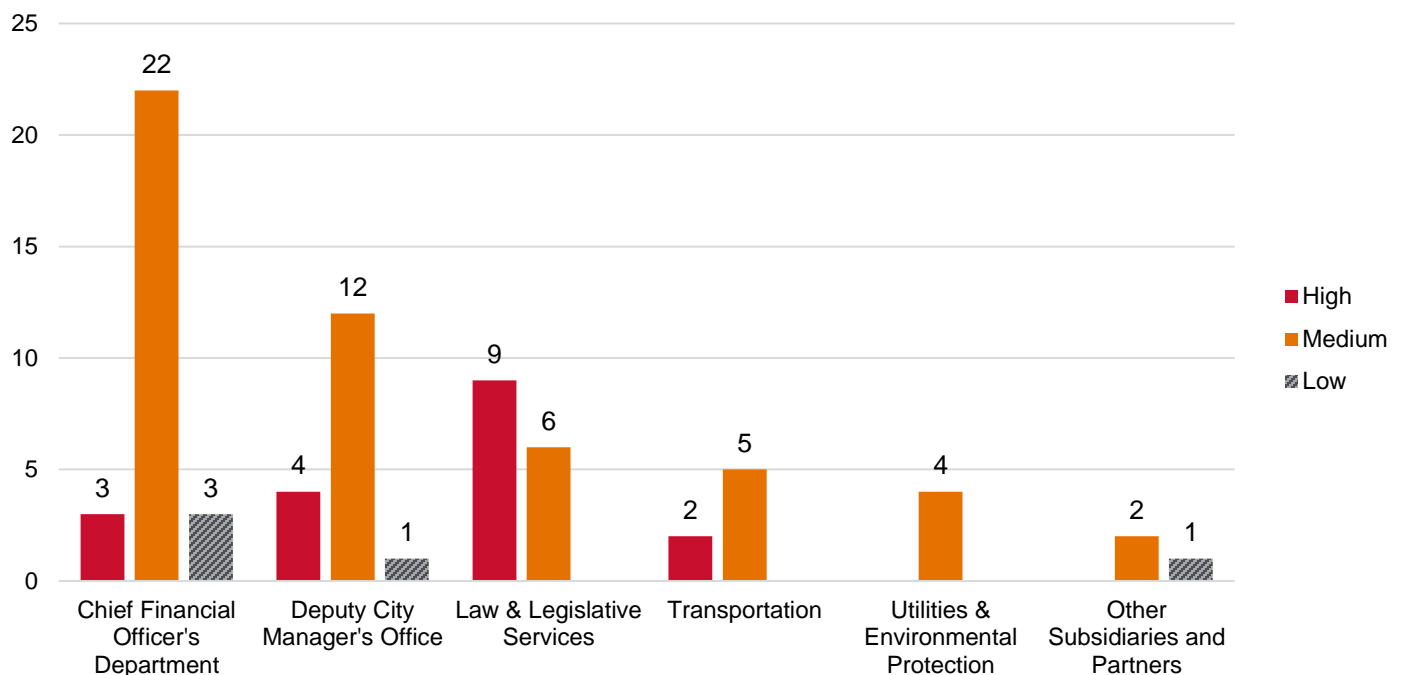
With Administration's input, risks are ranked high, medium or low based on the impact and likelihood should the risk event occur. The fieldwork plan is designed to test controls and related processes which support successful risk mitigation.

During 2018 we issued 12 audit reports, and raised 55 recommendations. As was the case in previous years, recommendations raised remained focused on mitigating highest risk exposures, and resulted in 69% of Administration's action plans (74 in total) addressing high and medium risks. Through the use of audit software we continued to track the level of risk by recommendation raised. We shared this risk prioritization in quarterly updates with Administration so they in turn can identify outstanding recommendations that require prompt action.

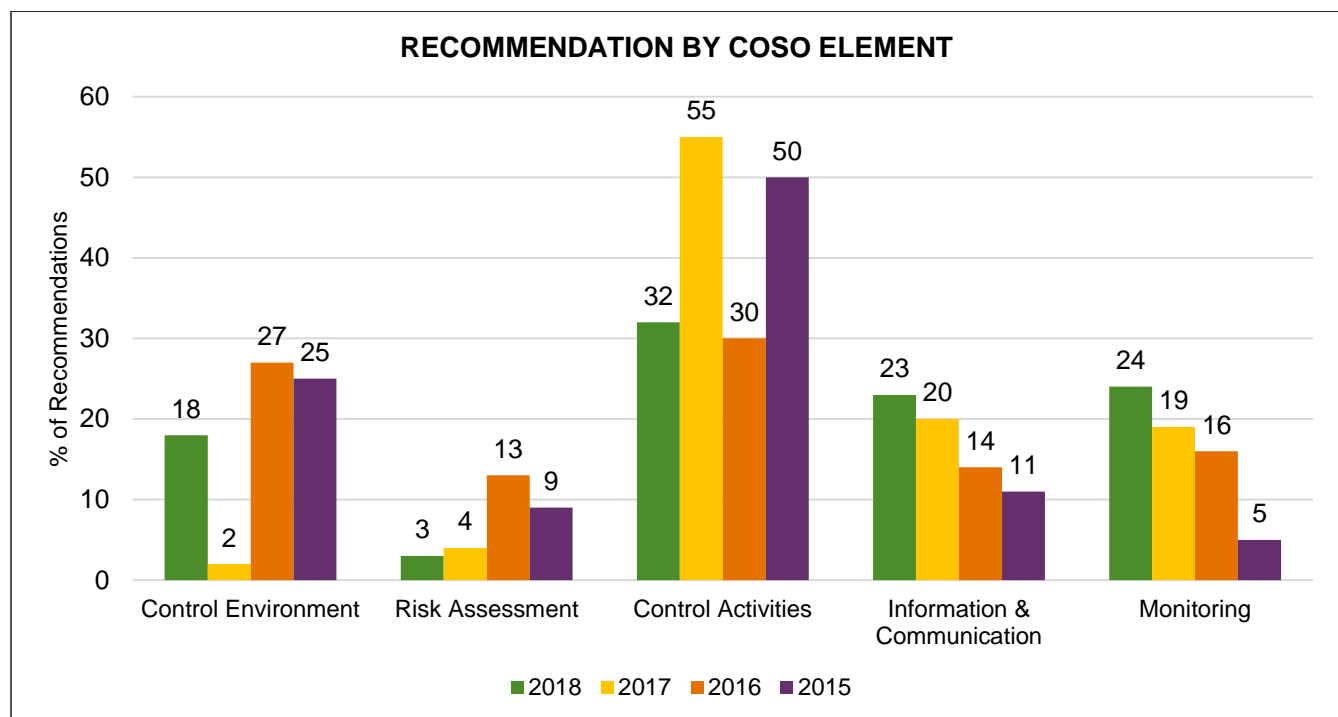
ACTION PLANS BY RISK LEVEL



2018 ACTION PLAN RISK LEVEL BY DEPARTMENT



The CAO provides independent assurance regarding the effectiveness of governance, risk management, and internal control. The COSO Internal Control Framework is a widely accepted framework that outlines the principles and components necessary for an organization to effectively manage its risks by implementing internal controls. The CAO categorizes recommendations into the five fundamental COSO components to identify potential trends and provide Administration with additional insight into the effectiveness of internal controls. Over the last three years the CAO has consistently raised recommendations focused on embedding and enhancing effective control activities. Since there have been very few overlapping or repeat audits performed in the last three years, the heightened number of recommendations specific to control activities should not be viewed as a significant weakness of a specific Business Unit or service. Rather this analysis should be viewed as a positive outcome of our risk-based audit process and reflective of how all COSO components are evaluated when raising recommendations to Administration that are practical, cost efficient, and focused on addressing root cause and mitigating future business risk to an appropriate risk tolerance.



2.2 Investigation Recommendations

The WBP investigative process is structured to not only respond to concerns raised, but also to identify and address root causes which can either be localized to a specific work area or more broadly applicable to the entire organization. Identifying root causes and prompt corrective action is widely recognized as essential to operating an effective employee reporting program and is reflected in our WBP Policy and process. Over the last year, opportunities for improvement or corrective action were identified in 62% of investigations concluded in 2018. As a result, there was a significant increase in corrective action recommendations raised compared to previous year noting:

- ✓ 51% increase in investigations resulting in recommendations for corrective action compared to prior year
- ✓ 31% increase in recommendations for corrective actions compared to prior year

Follow-up with Administration throughout the year confirmed corrective actions were completed and as of December 31, 2018, all but one corrective action had been implemented and considered closed.

For the second consecutive year, the majority of corrective actions raised were directed at addressing conflict of interest allegations. Conflict of interest allegations received in 2018 were generally related to employee situations where an employee's ability to objectively perform their civic duties was questioned. These corrective action recommendations, with the support of Human Resources, improved awareness of the City's Code of Conduct and Conflict of Interest Policy and supported targeted education and training at both individual and Business Unit levels to mitigate future occurrences.

Reporting Category of Allegation	Classification of Allegation	Corrective Actions	
		2018	2017
Business Integrity	Conflict of Interest	28	17
	Vendor Management	-	3
HR, Diversity and Respectful Workplace	Respectful Workplace	14	-
	Inefficient Use or Misuse of City Resources	1	-
	Abuse of Benefits	-	4
	Preferential Treatment	-	2
Misuse, Misappropriation of Assets	Theft of City Assets or Supplies	6	9
	Theft of Time	6	6
	Inefficient Use or Misuse of City Resources	2	4
	Acceptable Use of City Technology Resources	2	2
Accounting, and Financial Reporting	Misappropriation or Misuse of City Funds	-	1
		63	48

A summary of each investigation resulting in corrective action is disclosed through the public-facing WBP webpage www.calgary.ca/whistle, which is updated on a quarterly basis. Each summary excludes personal or identifying information pertaining to individuals or Business Units involved in the investigation in support of the WBP's adherence to reporter protection and personal privacy. Each corrective action summarized on the WBP webpage may incorporate multiple specific actions. The publishing of allegations and the corresponding summaries of investigative findings and corrective actions supports greater transparency of investigation actions taken, WBP accountability, and The City's commitment for appropriate response and action.

3.0 Our Commitment to Value-add

3.1 Key Performance Indicators

As part of our commitment to continuous improvement, we track our added value based on the following key performance indicators of Efficiency, Effectiveness, Quality, and Staff proficiency. We exceeded our commitment targets on two, Quality and Staff. Timely implementation of recommendations was below our established target, despite our ongoing follow-up process.

On efficiency measures, we intentionally accepted an audit (Plebiscite Readiness Review) outside of the approved plan, at the request of Administration, which slightly impacted our ability to deliver on the original plan. As noted in Appendix A we are confident in the delivery of these remaining audits in early 2019.

Effectiveness, as measured by timely implementation of recommendations (within 30 days of the original action plan date), was also slightly below target. Despite our timely follow-up and discussion with Administration on realistic action plan dates, we recognize the increased demands on resources across The City, which likely has impacted final implementation dates. We will continue to hold proactive discussions with Administration to support them in delivering on these commitments with appropriate mitigation of residual risk. In addition to these four key performance indicators, we track staff retention on an annual basis. At the end of 2018, our staff had an average of 5.3 years of service within the CAO.

Measure Area	Performance Indicator	Target	2018	2017	2016	Comments
Efficiency	On Track to Annual Plan	100%	94%	92%	98%	Slightly below target reflecting longer than anticipated reporting phases to two audits.
Effectiveness	Timely Implementation of Recommendations	65%	42%	61%	71%	Results may be attributed to increased demand on resources and/or optimistic implementation dates.
Quality	Client Satisfaction	75%	96%	98%	94%	Fourteen client surveys were received during 2018 covering ten audits with a response rate of 83%.
Staff	Training Plan Achieved	90%	98%	98%	93%	Professional training included a cost effective mix of internal/external and self-study activities.



3.2 Professional Work Standards

Professional work standards apply across all audits, advisory projects, and whistle-blower investigations and are key to our goal of adding value in the services we deliver.

The CAO conducts its audit activities in adherence with the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*).

Our internal quality program was conducted throughout the year, and included the completion of:

- Quarterly audit file peer reviews (by an auditor not involved in the audit);
- Quarterly KPI monitoring;
- Post-audit lessons learned exercises and client surveys; and
- Periodic review and update of key audit processes.

The internal quality activity evidenced conformance to *Standards*, and opportunities for further process improvements were incorporated into updates of procedures and practices. As part of this activity, the CAO confirms the continued organizational independence of its operation.

Whistle-blower investigations are carried out in alignment with best practices and the codes of conduct of the Association of Certified Fraud Examiners and Association of Certified Forensic Investigators of Canada. Quality reviews are conducted on all completed investigations.

The foundation of the CAO is the professional skills and knowledge of the staff. To run effective audits, advisory projects and investigations, a range of complementary professional designations enhances the team's effectiveness. All staff conducting audits, advisory and whistle-blower investigations have at least one of the Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner or Certified Forensic Investigator designations. To further enhance certifications and to keep current on best practices, all staff participate in ongoing professional training. The CAO supports 40 hours of training per employee per year, however all staff engage in additional continuous learning on their own personal time.

Throughout 2018, several of our professional staff have contributed time to give back to their external peer community through a number of professional committees including:

- Board member of IIA Canada;
- Sub-committee Chair of the Association of Local Government Auditors;
- Member of the Association of Local Government Auditors' judging panel for the annual Knighton Awards (exceptional performance audit reports); and
- Committee member of the Canadian Audit and Accountability, Municipal Oversight Program Advisory Group.

3.3 Budget

The CAO strives to provide the highest level of independent and objective assurance, advisory and investigative services within Council-approved budget. Our approved 2018 annual budget of \$2.9M reflects operating costs associated with completing audit, advisory and investigative services.

Operating Budget

While the majority of the CAO budget represents associated salary for the professional team, the funding also enables the office to hire subject matter experts to evaluate specialized risk areas or provide specific knowledge. During 2018 the CAO utilized contract audit resources to assist with the Green Line Engagement and Open Data Initiative audits.

Categories (\$'000's)	Annual Budget	Actual	Variance*
Salary	2,619	2,424	195
Contracts	96	66	30
Training	65	51	14
Other	134	141	(7)
Total	2,914	2,682	232
* Variance partially attributed to staff vacancy and timing differences in contract expenses.			

4.0 Appendices

Appendix A – Audit Activity Status as at December 31, 2018

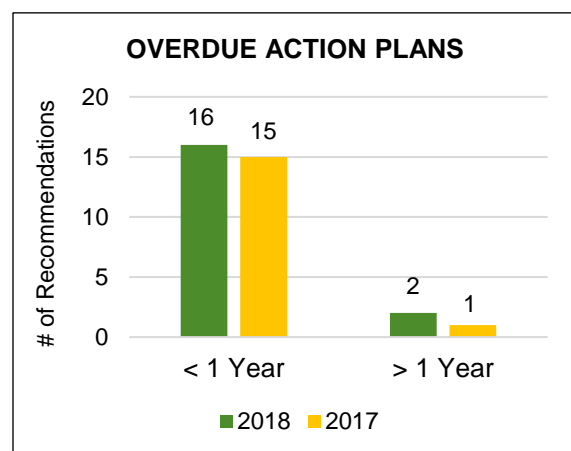
2017/2018 Approved Audit Plan			
#	2017 Carry Forward Audits		Status
1	Green Line Engagement	An operational audit on the effective utilization of citizen engagement to support the objectives of the capital project.	Complete: Reported January
2	Corporate Credit Card (Data Analytics)	A compliance audit utilizing data analytics to assess the effectiveness of related Corporate Credit Card compliance and fraud prevention controls.	Complete: Reported January
3	New Central Library Readiness	An operational audit on the readiness of Calgary Public Library and The City of Calgary to assume hand-off from the Calgary Municipal Land Corporation of the New Calgary Central Library.	Complete: Reported February
4	Cash Flow Management	An operational audit of treasury (cash flow) management.	Complete: Reported April
5	Cyber Security Incident Response	An IT audit assessing the effectiveness of response processes established to support and protect critical data from cyber-attacks.	Complete: Reported April
6	Procurement Follow-up	A follow-up audit on management actions to address recommendations raised in previous CAO audits (from 2009 to current).	Complete: Reported April
#	2018 Audits		Status
1	Employee Expenses	A compliance audit of employee expenses utilizing data analytics.	Complete: Reported June
2	2017 Municipal Election Review	A management request (City Clerk's Office) to conduct a root cause analysis review of the issues which occurred on the 2017 election day and to evaluate proposed strategies to improve the election day process.	Complete: Reported July
3	Open Data Initiative	An operational audit of the Open Data Program governance.	Complete: Reported September
4	Real Estate Acquisitions (Green Line LRT)	An operational audit assessing the real estate acquisitions related to the Green Line LRT.	Complete: Reported October
5	Calgary Parking Authority	An operational audit of Calgary Parking Authority's asset management processes for the parkade portfolio that they own and operate.	Reporting

2017/2018 Approved Audit Plan			
#	2018 Audits Continued		Status
6	Bonnybrook Plant D Expansion	An operational audit of the Bonnybrook Plant D Expansion capital project.	Complete: Reported November
7	Community Planning/Calgary Approvals	An operational audit to assess the effectiveness of processes to improve permit timelines.	Fieldwork
8	Calgary Community Standards – Livery Transport Services	An operational audit assessing the effectiveness of internal controls that support public and driver safety.	Reporting
9	Annual Control Environment Assessment	An operational audit assessing the design effectiveness of the Annual Control Environment Assessment and assessing the operating effectiveness of control activities which support COSO Principle 3: Establishes Structure, Authority and Responsibility.	Reporting
10	Emergency Management	An operational audit of emergency preparedness and related business continuity plans.	Fieldwork
11	Plebiscite Readiness Review	A special review at the request of the Returning Officer/City Clerk to validate plebiscite readiness and support greater transparency on actions taken by Election and Census Services to provide an improved voter experience.	Complete: Reported October
#	2019 Audits Initiated in 2018		Status
1	Green Line – Governance	An operational audit of Green Line Project organization/governance framework.	Planning
2	Off-site Levy Administration	An operational/IT audit of the effectiveness of City processes (including calculation practices) and system controls that support capital cost recovery and use of collected levies governed by the 2016 Off-site Levy Bylaw.	Planning
3	Warehouse/Inventory Systems	An operational audit of warehouse and inventory systems supporting significant City assets.	Planning

Appendix B – Audit Recommendation Follow-up

There were 60 outstanding recommendation action plans at 2018 year-end. Of these, 70% were not yet due and classified as pending audit review, 30% were reviewed and classified as in-progress and are being tracked to a revised implementation date. Classification as pending, and in-progress is based on CAO review of evidence of implementation based on original and revised implementation dates and may not reflect Administration's progress on action plans.

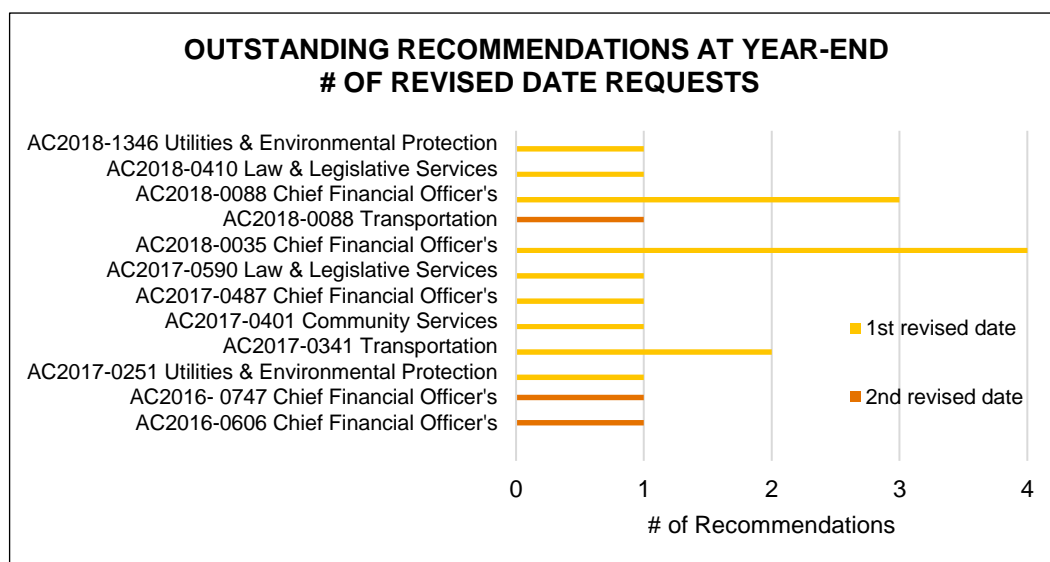
2018 Recommendation Action Plan Turnover						
Status	Opening Jan. 1, 2018	Revised Date Required	Reported in 2018	Closed-Risk Mitigated	Closed-Risk Accepted	Ending Dec. 31, 2018
Pending	46	(23)	74	(50)	(5)	42
In-Progress	16	23		(18)	(3)	18
Total	62	0	74	(68)	(8)	60



Follow-up results continued to be positive this year. Of the 74 recommendation action plans reported in 2018 (56 in 2017), 30 (41%) were closed (33% in 2017). The remaining 44 were either pending (34) or in-progress (10) at year-end.

The overall number of overdue action plans has increased slightly from 16 to 18 in 2018. There were no action plans that were more than two years past their original commitment date.⁹

In 2018, we received 23 (19 in 2017) requests to revise action plan implementation dates, all of which were first time revisions. Of the 18 in-progress action plans at year-end, 15 are first time revisions and 3 are second time revisions. There were no third time revisions.



⁹ The two recommendations outstanding for more than a year were both second time revisions. One action plan was high-risk and related to the Vendor Master File Audit and monitoring duplicate vendors. The action plan was in-progress due to the complexity of the work and technical reporting issues. The other action plan was medium risk and related to the Hedging Audit (Foreign Exchange and Fuel). The action plan was 75% complete to allow the FX Advisory Committee to prepare operational procedures to define risk tolerance and acceptable corporate risk exposure.

Annual Control Environment Assessment Audit

EXECUTIVE SUMMARY

The City Auditor's Office issued the Annual Control Environment Assessment Audit Report to Administration on February 20, 2019, reflecting an audit focused on the design effectiveness of the 2018 Control Environment Assessment, and the operating effectiveness of specific controls listed in the Assessment under COSO Principle Three, Establish Structure, Authority, and Responsibility. Three recommendations were raised to provide greater transparency to Audit Committee on control definitions, as well as introducing a system of control oversight utilizing demonstrable controls. Finance agreed with the main recommendation, to define and communicate the type and level of controls, with a commitment to provide a proposal and complete consultation with Audit Committee by September 30, 2019. Decisions resulting from Finance's proposal will guide implementation of the remaining two recommendations relating to controls oversight and demonstrable controls to which Finance have provided partial agreement. The City Auditor's Office will track the implementation of these commitments as part of our ongoing follow-up process.

RECOMMENDATIONS

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

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 2017/18 plan was approved on 10 November 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

BACKGROUND

Annually, since 2004, Finance has presented a Control Environment Assessment (Assessment) and Management Representation Update report to Audit Committee. Finance base the Control Environment Assessment (Assessment) on the Committee of Sponsoring Organizations of Treadway Commission (COSO). COSO states each of the five Components of internal controls and relevant 17 Principles should be present and functioning to create an effective system of internal controls. This Assessment supports the Audit Committee's Terms of Reference (Bylaw 48M2012), which states that the Committee is responsible to "oversee(s) 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".

The objectives of the audit were to assess the effectiveness of the overall design of the Assessment, and to assess the operating effectiveness of specific controls listed in the 2018 Assessment under COSO Principle Three, "Establishes Structure, Authority, and Responsibility".

INVESTIGATION: ALTERNATIVES AND ANALYSIS

We reviewed the purpose of the Assessment, and the process by which the Assessment is compiled. Finance have established a series of activities that support the annual compilation of the Assessment, based on a network of control contributors across Administration, and the

Annual Control Environment Assessment Audit

utilization of the COSO internal control framework. In reviewing the purpose of the Assessment, we identified transparency regarding the level of assurance being provided to Audit Committee should be improved by the inclusion of a type definition (financial, non-financial) and level definition (entity wide, or Business Unit level) of control included within the Assessment. In assessing the operating effectiveness of controls listed under Principle Three, we confirmed that five out of the six controls described were present and functioning. The remaining control, specific to defined delegations structures, could not be confirmed as operating effectively, and control improvement opportunities were not disclosed through the Assessment compilation process. We recommended that Finance introduce a system of control oversight (control ownership and associated Director level approval of information provided to Finance) and refine information in the Assessment to include only demonstrable controls.

Stakeholder Engagement, Research and Communication

This audit was conducted with Finance 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)

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 serve to promote accountability, mitigate risk, and support an effective governance structure. This audit was undertaken as part of the approved City Auditor's Office 2017/2018 Annual Audit Plan. The proposed recommendations will promote individual responsibility and collective accountability for a robust system of internal control and are expected to improve the efficiency of the production of the Assessment. As a result, this value-add deliverable can be provided to Audit Committee utilizing City resources in the most effective way possible.

REASON 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

Annual Control Environment Assessment Audit - AC2019-0214 ATT



Calgary

City Auditor's Office

Annual Control Environment Assessment Audit

February 20, 2019

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The City Auditor's Office completes all projects in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Executive Summary

Annually, since 2004, Finance has presented a Control Environment Assessment (Assessment) and Management Representation Update report to Audit Committee. This report supports the Audit Committee's Terms of Reference (Bylaw 48M2012), which states that the Committee is responsible to "oversee(s) 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".

The most recent Assessment was presented to Audit Committee by Finance on April 17, 2018. Finance prepared the Assessment based on the Committee of Sponsoring Organizations of Treadway Commission's (COSO) 17 Principles of effective internal control and concluded the internal control principles were present and functioning. Given Audit Committee members expressed they valued the delivery of this Assessment in support of their oversight role, and in recognition the Assessment is based on Administration's self-assessment of the operation of controls, this audit was completed to provide additional assurance to Audit Committee regarding the integrity of the information presented.

The objectives of the audit were to assess the effectiveness of the overall design of the Assessment, and the operating effectiveness of specific controls listed in the 2018 Assessment under COSO Principle Three, Establish Structure, Authority, and Responsibility.

We reviewed the purpose of the Assessment, and the process by which the Assessment is compiled. Finance have established a series of activities that support the annual compilation of the Assessment, based on a network of control contributors across Administration, and the utilization of the COSO internal control framework. In reviewing the purpose of the Assessment, we identified transparency regarding the level of assurance being provided to Audit Committee should be improved by the inclusion of a type definition (financial, non-financial) and level definition (entity wide, or Business Unit level) of control included within the Assessment.

In assessing the operating effectiveness of controls listed under Principle Three, we confirmed that five out of the six controls described were present and functioning. The remaining control, specific to defined delegation structures, could not be confirmed as operating effectively, and control improvement opportunities were not disclosed through the Assessment compilation process. We recommended that Finance introduce a system of control oversight (control ownership and associated Director level approval of information provided to Finance) and refine information in the Assessment to include only demonstrable controls. These process changes will promote individual responsibility and collective accountability for a robust system of internal control and are expected to improve the efficiency of the production of the Assessment. As a result, this value-add deliverable can be provided to Audit Committee utilizing City resources in the most effective way possible.

Finance have agreed with the main recommendation, to define and communicate the type and level of control included within the Assessment, with a commitment to provide a proposal and complete consultation with Audit Committee by September 30, 2019. Decisions resulting from this proposal will guide implementation of the remaining two recommendations relating to controls oversight and demonstrable controls to which Finance have provided partial agreement. Any changes to the future scope and design of the Assessment will be incorporated into the 2020 Annual Control

Environment Assessment and will be presented to Audit Committee by April 30, 2020. The City Auditor's Office will follow up on all action plan commitments as part of our on-going recommendation follow-up process.

1.0 Background

Annually, since 2004, Finance has presented a Control Environment Assessment and Management Representation Update Report to Audit Committee. This report supports the Audit Committee's Terms of Reference (Bylaw 48M2012), which states that the Committee is responsible for overseeing the integrity of the internal controls. Finance base the Control Environment Assessment (Assessment) on the Committee of Sponsoring Organizations of Treadway Commission (COSO). COSO states each of the five Components of internal controls and relevant 17 Principles (Appendix 1) should be present and functioning to create an effective system of internal controls, and also provides further guidance for designing and implementing a robust system of internal control.

Finance concluded in their most recent Assessment (AC2018-0368) presented to Audit Committee on April 27, 2018, that the overall system of internal controls over The City's financial reporting is effective.

2.0 Audit Objectives, Scope and Approach

2.1 Audit Objective

The objectives of the audit were to:

1. Assess the design effectiveness of the Assessment process to fulfill the objective of providing Audit Committee reliable information on the effectiveness of internal controls, and
2. Assess the operating effectiveness of the specific controls listed and reported to Audit Committee in the 2018 report (AC2018-0368) under Principle Three, "Establishes Structure, Authority, and Responsibility". (Appendix 2)

2.2 Audit Scope

The scope of the audit focused on the activities leading up to, and the documentation and operation of controls, supporting the 2018 Assessment reported to Audit Committee on April 27, 2018. Future enhancements to controls as identified in the report as "further actions planned" were not evaluated, as these activities were in progress and did not form the basis for Finance's conclusions on control effectiveness.

2.3 Audit Approach

Our audit approach consisted of the following:

- Review of design effectiveness of the Assessment to support its objective:
 - Confirmation of the documented purpose of the Assessment as communicated to Audit Committee and Council since 2004;
 - Evaluation of the process by which the Assessment is compiled; and
 - Interviews with Financial Controls Group staff associated with compiling the assessment, and specific control owners.
- Review of the operating effectiveness of controls listed under Principle Three through:
 - Validation of the control owner for each control documented;
 - Evaluation of supporting control documentation retained by each control owner; and
 - Attestation of each operating control.

3.0 Results

Administration's preparation and presentation of the Assessment supports Audit Committee in its governance role of providing effective oversight on the integrity of internal controls. As part of our audit work we issued a brief questionnaire to all seven Council and citizen members of Audit Committee, and all responses received indicated that members of Audit Committee found value in the 2018 Assessment as presented.

Finance have established a series of activities that support the annual compilation of the Assessment, based on a network of control contributors across Administration, and the utilization of the COSO internal control framework. In reviewing the purpose of the Assessment, we identified that transparency regarding the level of assurance being provided to Audit Committee should be improved by the inclusion of the type definition (financial, non-financial) and level definition (entity wide, or Business Unit level) of control included within the Assessment.

We planned to complete attestation of all controls listed under Principle Three. However, due to the nature of the controls listed, attestation could not be completed in all cases, and where this was not possible, we instead validated the control through reviewing supporting documentation. In assessing the operating effectiveness of controls listed under Principle Three, we confirmed that five out of six controls were present and functioning. We recommended two process changes to promote individual responsibility and collective accountability for a robust system of internal control and to improve the efficiency of the production of the Assessment, so this value-add deliverable can be provided to Audit Committee utilizing City resources in the most effective way possible.

3.1 Assessment Design

We reviewed the purpose of the Assessment, and the process by which the Assessment is compiled.

Assessment Purpose

In 2003 Audit Committee Terms of Reference¹ were updated with an approved motion to receive an Annual Report from Administration on the Control Environment within the City. Since 2004 Administration has prepared the Assessment based on COSO internal control framework. Audit Committee's current Terms of Reference state with respect to the City's internal control systems that Audit Committee: *"Review reports from Administration about the City's internal control systems, including technology, security and financial controls, and assess whether they are operating effectively."* The Assessment is one of several reports received by Audit Committee (other reports are presented on an annual basis by Law, and IT) that support this section of the current Terms of Reference.

The report accompanying the Assessment presented to Audit Committee on April 17, 2018 states the purpose of the Assessment is: *"Audit Committee is informed on the processes to gather information regarding the effective functioning of financial controls..."* However, the Executive Summary to the report states that *"This report provides the Audit Committee the annual update on the control environment, including matters with respect to financial reporting within The City."* which implies the inclusion of both financial and non-financial controls.

¹Bylaw 48M2012

Controls documented in the Assessment presented in 2018 include both financial and non-financial controls, at differing levels of the organization (entity wide, Business Unit level). We recommended (Recommendation 1) Finance improve clarity on the purpose of the Assessment by defining the level and type of controls included in the Assessment. The implementation of the recommendation may also support greater efficiency in delivery of the annual Assessment, through focus on key controls rather than all types of control activities occurring across Administration.

Compilation Process

The Assessment is compiled by Finance based on input from 32 control contributors across City of Calgary Administration. Finance invited all control contributors to kick-off meetings held during early January of 2018 to provide instructions on producing control information. The kick-off presentation slides covered the purpose of the Assessment, along with a high-level summary of COSO, and the requirement for control contributors to self-assess whether controls are present and functioning.

Control contributors each submit a Control Environment Report to Finance which includes a brief description of specific controls operating during the previous fiscal year and are required to affirm (self-assessment) if the control is present and functioning.

We interviewed two control contributors to confirm if Finance provided appropriate support/instructions, and they provided positive agreement indicating Finance provided appropriate instructions to control contributors on completing the Control Environment Reports, arranged subsequent meetings with control contributors to clarify instructions and promptly answered and resolved follow-up questions.

Based on process walkthrough information provided, Finance collate information received from the Control Environment Reports into the Assessment and use this information to assess whether each COSO Principle is present and functioning. Director approval of the accuracy of the control information is not requested, however approval is provided implicitly as they are copied on email correspondence between the control contributor and Finance. Finance monitor that this implicit approval has been provided by each relevant Director. In the Assessment presented to Audit Committee in 2018, each COSO Principle was described as present and functioning.

3.2 Principle Three – Controls

We reviewed the operating effectiveness of each control listed in the Assessment under Principle Three, “Establish Structure, Authority, and Responsibility” (Appendix 2). Finance assessed the Principle as present and functioning.

All six controls listed under Principle Three were described as present and functioning in the respective Control Environment Reports provided by the control contributors. We reviewed the related Control Environment Reports and validated the operation of the controls described. Implicit Director approval was provided for each control via being copied into email correspondence between each relevant control contributor and Finance.

Through validation of support documentation, we confirmed that five of six controls were present and functioning. One control could not be confirmed as operating effectively. Control

03-003 Defined Delegated Structure states that “The City of Calgary operates under a defined authority structure” and that “some duties are delegated by way of bylaw, while others are delegated by Administration”. Through discussion with control contributors listed for this control, we noted that there is no City-wide documentation or supporting process to monitor and track duties delegated through bylaw or by Administration. We confirmed that City Clerk’s Office are working with Law to compile a full list of duties delegated; however, neither City Clerk’s Office or Law were listed as control contributors, nor was this action listed as a “Further Action Plan” in the Assessment. We raised a recommendation (Recommendation 2) to enhance the level of assurance provided by establishing a control oversight system, including dedicated control owners, and explicit Director level control sign off confirming that controls are present and functioning. Designating a control owner for each control will support good governance by ensuring appropriate responsibility for controls is assigned across Administration.

In reviewing individual controls listed under Principle Three, we noted Internal Control Descriptions were not consistently articulated as demonstrable controls, e.g. descriptions were written as statements or events rather than as a control, which makes it more difficult to identify a control owner and ultimately verify the existence and operation of the control. We raised a recommendation (Recommendation 3) to refine the Assessment Internal Control Descriptions to reflect only demonstrable controls.

We would like to thank staff from Finance and control contributors across City Administration for their assistance and support throughout this audit.

4.0 Observations and Recommendations

4.1 Assessment Purpose and Level of Control Assurance

The Assessment does not define the type of controls (financial, non-financial) which are being assessed, or the level of controls (entity level controls, Business Unit controls).

A level of guidance was provided in the report accompanying the Assessment presented to Audit Committee in April 2018 under “Purpose”, which states the focus is to provide information regarding the effective functioning of financial controls, however we noted examples of controls (e.g. Control 006-02, Civic Innovation YYC) that extend beyond financial controls.

The report Executive Summary states the report provides an annual update on the control environment, however does not provide clarity to the recipient whether the assurance provided relates to financial controls or all operating City controls (e.g. whether only entity level controls, operating city-wide, are included in the Assessment).

Defining controls included in the Assessment provides greater transparency to Audit Committee and reinforces an efficient Assessment compilation process, as it minimizes the risk that staff time is spent assessing controls which are required, or not relevant to the Assessment purpose.

Recommendation 1

The Director of Finance/City Treasurer define and communicate the type and level of control included within the Assessment.

Management Response

Agreed.

As noted above, the citizen and elected members of the Audit Committee find the Annual Control Environment Assessment to be valuable in its current form. The choice of which controls to include within the Assessment is inseparable from its scope and form; to mitigate the risk of making changes that would lower the report’s usefulness, consultation is required.

At present, the Annual Control Environment Assessment focuses on those controls that support The City’s financial functions. In keeping with the guidance of the COSO Framework, this includes some entity-level controls that are not explicitly financial in nature. The Annual Control Environment Assessment is not intended to provide an assessment of operational controls or unrelated entity level controls. Further clarification of reporting scope, in addition to the recommendation provided, will be sought through the management action plan.

Action Plan	Responsibility
<p>The Director of Finance/City Treasurer will prepare a report for the members of the Audit Committee, providing recommended alternatives discussing potential changes to:</p> <ul style="list-style-type: none"> a) The appropriate scope of City activities to be covered by the Assessment; and b) The level and degree of detail desired in the disclosure of controls that affect those activities. <p>Following this consultation and the selection of preferred options by the Audit Committee, the Director of Finance/City Treasurer will cause any additional alterations to be reflected in the Annual Control Environment Assessment.</p>	<p><u>Lead</u>: Director of Finance/City Treasurer</p> <p><u>Support</u>: Manager, Corporate Financial Reporting</p> <p><u>Commitment Date</u>: The consultation will be completed by September 30, 2019, with any results reflected in the 2020 (2019 Year-end) Annual Control Environment Assessment presented to Audit Committee by April 30, 2020.</p>

4.2 Control Oversight

In reviewing controls documented in Principle Three of the Assessment, we identified gaps in control oversight. Finance staff compile the Assessment based on information from control contributors, and we noted in our review several control contributors were listed for each control rather than one specific owner. Director confirmation that controls were present and operating was obtained implicitly via being copied into email correspondence between control contributors and Finance staff. We identified one control which could not be confirmed as operating effectively, which had not been identified in the Assessment compilation process.

Control 03-003 Defined Delegation Structure states “The City of Calgary operates under a defined delegated authority structure” and “Some duties are delegated by way of bylaw, while others are delegated by Administration”. Although the Assessment provided no direct control owner, Finance was able to identify control contributors for this control. Through interviews we determined there is no City-wide documentation or supporting process to monitor and track duties delegated through bylaw or by Administration. We were informed City Clerk’s Office are working with Law to compile a full list of duties delegated; however, neither Law nor City Clerk’s Office were identified as control contributors, and this action was not listed as a “Further Action Planned” in the Assessment.

Controls documented in the Assessment do not have an assigned control owner, or explicit Director sign off regarding the operation of the control, creating uncertainty in the control oversight framework. Clear ownership and oversight of control operation assists in supporting individual accountability and collective responsibility for effective control operation, and supports the accuracy of the Assessment by ensuring that appropriate responsibility is assigned.

Recommendation 2

The Director of Finance/City Treasurer establish a control oversight system including control ownership, and associated Director level control sign off confirming that controls are present and functioning.

Management Response

Partially agreed.

As noted, some controls described in the Annual Control Environment Assessment are entity-level controls that have contributors from across The City. Assigning a single control owner to these would be challenging, as it would not accurately reflect the underlying organizational structure.

Action Plan	Responsibility
<p>The Director of Finance/City Treasurer will:</p> <ul style="list-style-type: none"> a) Ensure that Director-level control sign-offs are provided for the approval of all contributions to the report and b) Explore, depending on the results of Recommendation 1, adding specific control ownership to each control documented in the Annual Control Environment Assessment. 	<p><u>Lead</u>: Director of Finance/City Treasurer</p> <p><u>Support</u>: Manager, Corporate Financial Reporting</p> <p><u>Commitment Date</u>:</p> <ul style="list-style-type: none"> a) Director sign-off: to be included in the 2019 (2018 Year-end) Annual Control Environment Assessment, presented to Audit Committee by April 30, 2019. b) Specific control ownership: the results of the exploration will be ready by December 31, 2019, with potential implementation in the 2020 (2019 Year-end) Annual Control Environment Assessment, presented to Audit Committee by April 30, 2020.

4.3 Demonstrable Controls

Segments of the internal control descriptions provided under Principal Three in the Assessment are not demonstrable, which impacts the ability of the control owner to assess design or effective operation of the control.

The Assessment includes under the heading "Internal Control Descriptions" a variety of statements, events, processes and controls which support the relevant Internal Control Principle. For example, Control 03-005 starts with the statement "The City's organizational structure is defined and promotes accountability throughout the Corporation." While this relates to the Principle (Management establishes....structures, reporting lines), it is unclear what could be verified to support the accuracy of this statement.

Ensuring that Internal Control Descriptions only contain demonstrable controls supports both the transparency of the Assessment by clearly communicating controls present and operating, and may improve the efficiency of collation of information for the Assessment by refining the content included.

Recommendation 3

The Director of Finance/City Treasurer to:

- Establish and communicate Finance – Internal Control & Policy Coordination’s responsibility for ensuring that Internal Control Descriptions supporting each Control Principle are worded as demonstrable controls; and
- Develop and issue guidance to control contributors to support the initial draft of Internal Control Descriptions as demonstrable controls.

Management Response

Partially agreed.

The Annual Control Environment Assessment in its current form is designed to report on the general state of internal controls at The City and to provide governance-level information that is useful to the Audit Committee. By necessity, its information is summarized, reflects only certain key controls and is non-exhaustive. It is often preferable to describe a general policy rather than provide an explicit list of actions taken by Administration in support of that policy.

However, depending on the results of the consultation discussed in Recommendation 1, there is a potential that changes to the scope and format of the report would align the Internal Control Descriptions to demonstrable controls.

Action Plan	Responsibility
<p>The Director of Finance/City Treasurer will:</p> <p>a) Review the results of the consultation process with the Audit Committee, as detailed in Recommendation 1, to determine whether revisions to the scope and format of the Annual Control Environment Assessment support and would benefit from the use of exclusively demonstrable controls, and;</p> <p>b) If supported by a) above, ensure that the Internal Control Descriptions contained in the Annual Control Environment Assessment are written as demonstrable controls.</p>	<p><u>Lead:</u> Director of Finance/City Treasurer</p> <p><u>Support:</u> Manager, Corporate Financial Reporting</p> <p><u>Commitment Date:</u></p> <p>a) December 31, 2019</p> <p>b) Potential application in the 2020 (2019 Year-end) Control Environment Report, presented to Audit Committee by April 30, 2020.</p>

Appendix 1: COSO Internal Control – Integrated Framework²

FIVE COMPONENTS OF INTERNAL CONTROL	17 PRINCIPLES OF EFFECTIVE INTERNAL CONTROL
Control Environment	<ol style="list-style-type: none"> 1. The organization demonstrates a commitment to integrity and ethical values. 2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. 3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. 4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. 5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
Risk Assessment	<ol style="list-style-type: none"> 6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. 7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. 8. The organization considers the potential for fraud in assessing risks to the achievement of objectives. 9. The organization identifies and assesses changes that could significantly impact the system of internal control.
Control Activities	<ol style="list-style-type: none"> 10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. 11. The organization selects and develops general control activities over technology to support the achievement of objectives. 12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
Information & Communication	<ol style="list-style-type: none"> 13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. 14. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. 15. The organization communicates with external parties regarding matters affecting the functioning of internal control.
Monitoring Activities	<ol style="list-style-type: none"> 16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. 17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

²Source: AC2018-0368 – ATTACHMENT 2

Appendix 2: Principle 3: Establishes Structure, Authority, and Responsibility³

Identification No.	Internal Control Description
03-001	<p>The City Manager and Chief Financial Officer (CFO) provide representations in the annual report with regards to how their responsibilities are discharged. As part of this process, they rely on the cascading representations made within each business unit by General Managers, Directors, Finance Managers and Finance Leads.</p> <p>Senior managers across the organization are responsible for managing, monitoring and updating the risks and internal controls in their areas. They acknowledge this responsibility as it pertains to risks and internal controls impacting the BU's Financial Reporting when signing the annual Management Representation Letters.</p>
03-002	<p>A Management Representation Letter (MRL) overview, example, and tips document is provided to all those individuals required to sign MRLs to ensure they fully understand their responsibilities and accountabilities when providing their representations. This information is posted on the Financial Reporting intranet site. This ensures that all involved parties are making informed representations about the contents of the financial statements and are accountable for their accuracy.</p>
03-003	<p>The City of Calgary operates under a defined delegated authority structure.</p> <p>The Municipal Government Act (MGA) outlines Councillors' duties, the Mayor's duties, and the duties of the City Manager. It also provides for the delegation of some of these duties. Some duties are delegated by way of bylaw, while others are delegated by Administration.</p>
03-004	<p>The City Manager's Office (CMO) will continue with its expanded Administrative Leadership Team (ALT) which includes the Chief Human Resources Officer, the Director of Customer Service & Communications and the Chief Information Technology Officer, and the Chief of Staff (CMO) to ensure additional participation in ALT deliberations about opportunities available to and risks facing the corporation.</p>
03-005	<p>The City's organizational structure is defined and promotes accountability throughout the Corporation. Within Administration, the responsibility to manage people and budget, known as Dept ID Ownership, is delegated through a standard process.</p>
03-006	<p>The Enterprise Suite Program (PeopleSoft), which includes clear identification of DeptID and Process Owners, has further clarified authority and accountability. The Human Capital Management (HCM) System is an application within the PeopleSoft Suite and has been further enhanced in 2017.</p> <p>Automated workflows and approvals are inherent within the design of the PeopleSoft HCM and Financials and Supply Chain Management (FSCM) systems.</p>

³ Source: AC2018-0368 – ATTACHMENT 1 – page 5