



AGENDA

AUDIT COMMITTEE

July 23, 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 June 27
5. CONSENT AGENDA
 - 5.1 DEFERRALS AND PROCEDURAL REQUESTS
None
 - 5.2 BRIEFINGS
None
6. POSTPONED REPORTS
(including related/supplemental reports)
None

7. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

- 7.1 Calgary Convention Centre Authority Annual Report, AC2019-0614
- 7.2 Calgary Arts Development Authority Audit Committee Annual Report, AC2019-0624
- 7.3 Annual Update – Information Technology Risk Management, AC2019-0945
Attachment 1 held confidential pursuant to Section 24 (advice from officials) of *FOIP*
REVIEW DATE: 2024 JULY 31
- 7.4 Integrated Risk Management Mid-Year Update, AC2019-0356
Attachment 2 held confidential pursuant to Section 24 (advice from officials) of *FOIP*.
RELEASE DATE: 2034 JUNE 30
- 7.5 External Auditor 2019 Audit Service Plan and Fees, AC2019-0936
- 7.6 Report on Revised Annual Audit Plan Approach, AC2019-0899
- 7.7 City Auditor's Office 2nd Quarter 2019 Report, AC2019-0900

8. ITEMS DIRECTLY TO COMMITTEE

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

9. URGENT BUSINESS

10. CONFIDENTIAL ITEMS

- 10.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES
 - 10.1.1 External Auditor – Provision of Additional Services, AC2019-0950
Held confidential pursuant to Sections 16 (disclosure harmful to business interests of a third party) and 24 (advice from officials) of *FOIP*.
REVIEW DATE: 2019 NOVEMBER 30
 - 10.1.2 Audit Forum (Verbal), AC2019-0940
 - 10.1.3 External Auditor (Verbal), AC2019-0941
 - 10.1.4 City Auditor (Verbal), AC2019-0942
- 10.2 URGENT BUSINESS

11. ADJOURNMENT



**MINUTES
AUDIT COMMITTEE**

**June 27, 2019, 9:30 AM
IN THE COUNCIL CHAMBER**

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

ALSO PRESENT: Acting Chief Financial Officer C. Male
City Auditor K. Palmer
Executive Assistant C. Smillie
External Auditor H. Gill
Acting City Clerk K. Martin
Legislative Advisor D. Williams

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 today's Meeting be amended by adding a Confidential Item of Urgent Business, 9.2.1 Pension Discussion (Verbal), AC2019-0882.

MOTION CARRIED

Moved by Citizen Representative Caltagirone

That the Agenda for the 2019 June 27 Regular Meeting of the Audit Committee be confirmed, **as amended**.

MOTION CARRIED

4. CONFIRMATION OF MINUTES

4.1 Minutes of the 2019 April 23 Regular Meeting of the Audit Committee

Moved by Councillor Farkas

That the Minutes of the Regular Meeting of the Audit Committee held on 2019 April 23, be confirmed.

MOTION CARRIED

5. POSTPONED REPORTS

None

6. ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

6.1 ENMAX Corporation Audit and Finance Committee Annual Report, AC2019-0527

A document entitled "ENMAX Audit Committee - Board Member Profiles" was distributed, with respect to Report AC2019-0527.

Speakers

1. Charles Ruigrok, Chair, ENMAX Audit Committee
2. Helen Wesley, Executive Vice President, IT, and Chief Financial Officer, ENMAX

Moved by Citizen Representative Lambert

That pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*, the Audit Committee move into Closed Meeting in the Council Lounge, at 9:54 a.m., to discuss confidential matters, with respect to the following:

- Attachments 1, 6, and 7 to Item 6.1, ENMAX Corporation Audit and Finance Committee Annual, AC2019-0527.

And further, that the following be invited to attend the Closed Meeting:

- Helen Wesley, Executive Vice President, IT and CFO ENMAX;
- Charles Ruigrok, Chair, Audit Committee, ENMAX; and
- Harman Gill, External Auditor, (Deloitte LLP).

MOTION CARRIED

The Committee reconvened in Public Meeting at 10:26 a.m. with Councillor Woolley in the Chair.

Moved by Citizen Representative Caltagirone

That the Committee rise without reporting.

MOTION CARRIED

Persons in attendance during the Closed Meeting discussions with respect to Report AC2019-0527:

Administration: Clerk: K. Martin. Observer: C. Male, C. Smillie.

Non-Administration: Observer: K. Palmer.

External: H. Gill.

External Advice: H. Wesley, C. Ruigrok.

Moved by Citizen Representative Lambert

That with respect to Report AC2019-0527, the following be approved:

That the Audit Committee:

1. Receives this Report for information; and
2. Directs that Attachments 1, 6, 7 and the Closed Meeting discussions related to those Attachments, remain confidential pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*, to be reviewed in 2024 June.

MOTION CARRIED

6.2 Calgary Public Library Audit and Finance Committee Annual Report, AC2019-0526

Speakers

1. Andrew Rodych, Audit & Finance Committee Chair, Calgary Public Library
2. Paul Lane, Director Corporate Services, Calgary Public Library

Moved by Citizen Representative Caltagirone

That with respect to Report AC2019-0526, the following be approved:

That the Audit Committee receives this Report for information.

MOTION CARRIED

6.3 Calgary Municipal Land Corporation Audit Committee Annual Report, AC2019-0528

A presentation entitled "CMLC Calgary's Urban Placemakers", was distributed, with respect to Report AC2019-0528.

Councillor Woolley left the Chair at 10:51 a.m. and Councillor Gondek assumed the Chair.

Councillor Woolley resumed the Chair at 10:53 a.m. and Councillor Gondek returned to her regular seat at Committee.

Speakers

1. Lyle Edwards, Board Chair, Calgary Municipal Land Corporation (CMLC)

- 2. Michael Brown, President and Chief Executive Officer, CMLC
- 3. Kondwani Bwanali, Vice President, Finance & Corporate Services, CMLC

Moved by Councillor Farkas

That with respect to Report AC2019-0528, the following be approved:

That the Audit Committee receives this Report for information.

MOTION CARRIED

- 6.4 External Auditor 2018 Management Letter, AC2019-0672

Moved by Councillor Gondek

That with respect to Report AC2019-0672, the following be approved:

That the Audit Committee:

- 1. Requests the External Auditor provide an update regarding the implementation status of the recommendations contained in the 2018 Management Letter (Attachment) at the 2020 January Audit Committee meeting; and
- 2. Recommends that Council receives this Report and Attachment for information.

MOTION CARRIED

- 6.5 Emergency Management Audit, AC2019-0678

Moved by Citizen Representative Lambert

That with respect to Report AC2019-0678, the following be approved:

- 1. That the Audit Committee receive this Report for information; and
- 2. That the Audit Committee recommend that Council receive this 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 Councillor Gondek

That pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*, the Audit Committee move into Closed Meeting in the Council Lounge, at 11:33 a.m. to discuss confidential matters, with respect to the following items:

- 9.1.1 Audit Forum (Verbal) - AC2019-0631;
- 9.1.3 City Auditor (Verbal) - AC2019-0633; and
- 9.2.1 Pension Discussion (Verbal) – AC2019-0882.

And further, that Harman Gill, External Auditor be invited to attend the Closed Meeting.

MOTION CARRIED

Pursuant to Section 6(1) of the Procedure Bylaw 35M2017, Section 78(2)(a) was suspended, by general consent, to allow Committee to complete the remainder of today's Agenda prior to the scheduled 12:00 noon recess.

That Committee moved into Public Meeting at 12:29 p.m. with Councillor Woolley in the Chair.

Moved by Citizen Representative Lambert

That Committee rise and report.

MOTION CARRIED

9.1 ITEMS FROM OFFICERS, ADMINISTRATION AND COMMITTEES

9.1.1 Audit Forum (Verbal), AC2019-0631

People in attendance during the Closed Meeting discussions with respect to Report AC2019-0631:

Administration: Clerk: K. Martin. Advice: C. Male. and G. Cole. Observer: C. Smillie.

Non-Administration: Observer: K. Palmer.

External: H. Gill.

Moved by Citizen Representative Lambert

That with respect to Report AC2019-0631, the following be approved:

That the Audit Committee:

1. Receive Verbal Report AC2019-0631 for information; and
2. Direct that the Closed Meeting discussions remain confidential pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy*.

MOTION CARRIED

9.1.2 External Auditor (Verbal), AC2019-0632

No report was given.

9.1.3 City Auditor (Verbal), AC2019-0633

People in attendance during the Closed Meeting discussions with respect to Report AC2019-0633:

Administration: Clerk: K. Martin. Observer: C. Smillie.

Non-Administration: Advice K. Palmer.

External: H. Gill.

Moved by Citizen Representative Caltagirone

That with respect to Report AC2019-0633, the following be approved:

That the Audit Committee:

1. Receive Verbal Report AC2019-0633 for information; and
2. Direct that the Closed Meeting discussions remain confidential pursuant to Section 24 (Advice from officials) of the *Freedom of Information and Protection of Privacy*.

MOTION CARRIED

9.2 URGENT BUSINESS

9.2.1 Pension Discussion (Verbal), AC2019-0882

People in attendance during the Closed Meeting discussions with respect to Report AC2019-0882:

Administration: Clerk: K. Martin. Advice: C. Male, M. Lavallee, G. Weibe, L. Shikaze, C. Blanchette, M. Storer, G. Cole. Observer: C. Smillie.

Non-Administration: Observer: K. Palmer

External Observer: H. Gill.

Moved by Councillor Gondek

That with respect to Report AC2019-0882, the following be approved:

That the Audit Committee:

1. Directs that a Working Group be established to provide a recommendation to Audit Committee no later than their 2019 September 6 meeting, on how best to achieve the intent of Notice of Motion C2019-0568, Comprehensive Pension Review and that the recommendation be forwarded to a Meeting of Council no later than 2019 September; and
2. Direct that the Closed Meeting discussions remain confidential pursuant to Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act*.

MOTION CARRIED

10. ADJOURNMENT

Moved by Citizen Representative Caltagirone

That this meeting adjourn at 12:31 p.m.

MOTION CARRIED

The following items have been forwarded to the 2019 July 22 Combined Meeting of Council:

CONSENT

- External Auditor 2018 Management Letter, AC2019-0672
- Emergency Management Audit, AC2019-0678

The next Regular Meeting of the Audit Committee is scheduled to be held 2019 July 23 at 9:30 a.m.

CONFIRMED BY COMMITTEE ON

CHAIR

ACTING CITY CLERK

**Calgary Convention Authority Report to
Audit Committee
2019 July 23**

**ISC: UNRESTRICTED
AC2019-0614**

Calgary Convention Centre Authority Annual Report

EXECUTIVE SUMMARY

This is the annual report from the Calgary Convention Centre Authority (CCCA) Audit and Finance Committee to The City's Audit Committee.

CALGARY CONVENTION CENTRE AUTHORITY RECOMMENDATION:

That the Audit Committee receive the presentation with respect to Report AC2019-0614 for the Corporate Record.

PREVIOUS COUNCIL DIRECTION / POLICY

The City of Calgary Audit Committee Bylaw 48M2012, states that the Audit Committee is responsible for:

“overseeing its governance responsibility with audit committees of The City’s major autonomous civic entities.”
Section 4(1)(i)

BACKGROUND

A letter dated 2019 April 10 was provided to the President and Chief Executive Officer of the Calgary Convention Centre Authority from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2018 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

1. The letter outlined the items to be provided in their annual report to The City’s Audit Committee, as follows:
2. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;
3. Report on the organization’s key operating and strategic risks including trends and risk management plans and processes;
4. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City’s Audit Committee;
5. Report on internal controls including information technology and systems;
6. Most recent management letter including management responses as appropriate; and
7. Audit Committee 2019 Work Plan.

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?
2. What is the current composition of the Audit Committee and what is their relevant financial experience?
3. Have there been any significant changes to organizational leadership?
4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

Calgary Convention Authority Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0614

Calgary Convention Centre Authority Annual Report

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?
6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This Report and Attachments responds to The City Audit Committee's reporting requirements of the Calgary Convention Centre Authority.

Stakeholder Engagement, Research and Communication

The Calgary TELUS Convention Centre created this report in consultation with the Calgary Convention Centre Authority.

Strategic Alignment

This report aligns with The City Audit Committee's governance responsibility to receive annual reports on matters of audit governance, including the organization's most recent annual financial statements, from the Calgary Convention Centre Authority.

Social, Environmental, Economic (External)

Financial Capacity

Current and Future Operating Budget:

Not applicable

Current and Future Capital Budget:

Not applicable

Risk Assessment

No implications for this report.

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested each year.

ATTACHMENT(S)

1. 2018 Audit Governance Overview Summary
2. 2018 CTCC Annual Report
3. 2018 Financial Statements of the Calgary Convention Centre

**CALGARY CONVENTION
CENTRE AUTHORITY**

**2018 AUDIT GOVERNANCE
OVERVIEW REPORT**

City of Calgary/Calgary Convention Centre Authority Mandate and Responsibilities:

To manage, market and operate the Calgary TELUS Convention Centre in an efficient and market-competitive manner in order to maximize overall economic benefits to the City of Calgary while maintaining financial performance within an acceptable range.

The Calgary TELUS Convention Centre (CTCC) is owned by the City of Calgary and operated by the Calgary Convention Centre Authority (CCCA). The CCCA was incorporated through an Act of the Legislative Assembly of Alberta in 1974. The CCCA operates the facility on behalf of the City under the terms of the mandate passed by City Council in 2005.

Pursuant to the Glenbow Museum Agreement signed in 1973, the CCCA entered into an agreement with the City to provide maintenance, repairs, cleaning and janitorial services to the Glenbow Museum. The CCCA also provides maintenance and repairs to the retail spaces, owned by the City in the North Building. Through an agreement between the City and Balboa Land Investments Inc. signed in 1999, the CCCA operates and maintains the shared loading dock in the North Building. A Food and Beverage Services Agreement issued by the City of Calgary gives the exclusive rights to all food and beverage services in the CTCC to the attached hotel (currently the Calgary Marriott until 2039). The CCCA has a contractual agreement with the Calgary Hotel Association (CHA) whereby the CCCA manages destination sales and marketing services for the meetings, conventions and incentive travel sector. Through a joint agreement among the City, the CCCA and TELUS, the CCCA manages the TELUS Naming and Business Rights contract.

Calgary TELUS Convention Centre Vision Statement:

The Calgary TELUS Convention Centre is Calgary's meeting place which brings the community together in a central hub to connect, learn, innovate, celebrate, support and grow.

The Calgary TELUS Convention Centre connects Calgary with the global community; leveraging our assets to create opportunities that influence the lives of Calgarians and Canadians.

Governance Structure, Succession Planning and Recruitment Process:

The CCCA is comprised of eleven members that consists of the Mayor, one Councilor, one member of City administration and eight electors. The Board as a whole appoints the Chair. There are two standing committees; Audit & Finance, and Governance and Human Resources (GHRC). In addition, the Board at times appoints task groups to undertake specific work as deemed appropriate. The Board undertakes two evaluations each year; Director Evaluation of Board Conduct and Effectiveness, and Board Member Skills Matrix. The evaluations are conducted by the GHRC and the results and analysis are presented to the Board. The evaluations have proven to be critical in ensuring that the board and its work are kept at a high standard. In addition, the skills matrix allows the Board to identify potential new skills specifically required to govern new strategic directions.

The CCCA identifies current challenges and those that lie ahead and the corresponding leadership qualities that is needed to navigate the challenges successfully. The GHRC considers board succession, taking into consideration the desired composition of the board; the strengths, skills and experience of current directors; expected retirement dates; and the strategic direction of the CCCA. This information is communicated through appropriate channels to assist the City in selecting appropriate directors for the CCCA. There are three board members whose membership terms will expire in 2019.

Community members can serve up to two full terms of 4-years each, which are staggered to ensure continuity. No community member may serve more than 10-years in total. With the exception of the Mayor, the City of Calgary representatives are each appointed for a 1-year term. If a member is not able to continue for a full term, he/she formally resigns from the Board and the GHRC consults the skills matrix and a list of existing potential Board candidates and recommends a replacement to fulfill the rest of the term. If there are no suitable candidates on the list, a recruitment firm is contracted to assist with recruitment.

The Board focusses first on having community members with the requisite skills to govern the organization and its strategic plan. While there is no specific diversity policy in place, we strive for gender parity via a 50/50 mix of male and female members, as well as a cultural and demographic mix.

2018 Financial Highlights:

Operating surpluses are transferred to the reserve fund. \$28,630 was transferred in 2018, and \$1,195,317 funded capital expenditures
Building Improvements funded by operating reserve (\$1,195,317), CPRiPS grant (\$953,796) and \$427,115 by capital lease.
Total economic impact from hosting 303 events including corporate town halls, local meetings, fundraising galas, and international and national conventions and conferences was \$133.8 Million

2019 Strategic Initiatives:

- Develop Strategic Markets
- Activate Convention District
- Develop Additional Lines of Business
- Deliver Customized Client Experiences
- Drive Economic Impact

Key Operating + Strategic Risks Including Trends and Risk Management Plans and Processes:

The top three operating risks identified in 2018 were the continuing economic downturn, global competition and upgrading and repairing of the City-owned infrastructure. One important strategic risk identified is the changing demand matrix for global meeting and convention planners. A second strategic risk identified is the lack of an updated Memorandum of Understanding between the CTCC and BMO Centre, which would outline the unique capabilities of each facility and define our respective roles in the attraction and servicing of meetings, exhibitions and conventions in Calgary.

Risk Management has been an area of key focus for the CCCA in 2018. Under the guidance of the CCCA Audit & Finance Committee, AON Global Risk Consulting was engaged to support the Executive Team in developing the right Enterprise Risk Management Program as it pertains to the CTCC.

Key risk management activities were establishing the risk maturity index, risk identification and assessment. Based on the AON Risk Maturity Index, the CTCC is above the industry average level of

risk maturity. On a 1- 5 scale of Risk Maturity CTCC scored a 3.5. AON verified that this is a very favorable position, as the global average among all industries is 2.0.

The CCCA receives updates on regulatory, operational, Human Resources/Health & Safety, Strategic/Business continuity and financial reporting at the committee and full board meetings regularly.

Analysis of Top Three Financial and/or Operational Risks that would impact City of Calgary and be of concern to the City's Audit Committee:

- 1) Changing global demand for meetings and conventions
 - a. The global market for conventions is changing rapidly and could impact our city dramatically. In a positive way if we are proactive; negatively if we are not.
 - b. Having world-class facilities is only one element to the success of a Tier 1 convention city. Hotels, airlift, pageantry and local transportation all impact this status.
 - c. The City Audit committee should be aware of, and support positioning Calgary to be effective in the changing and growing global marketplace.
- 2) Age of south building
 - a. Opened in 1974 as Canada's first purpose-built convention centre, the south building of the CTCC requires constant maintenance and upkeep. CTCC's team of engineers and maintenance professionals are currently managing this effectively.
- 3) Economy
 - a. With the continued economic downturn, Calgary's downtown core is in a depleted state. Support for the CTCC's District Strategy will allow the CTCC to drive prosperity by developing and attracting strategic events into the city's downtown. In turn, this supports businesses and jobs while protecting and building the city's tax base.

An overview of Internal Controls including Technology and Systems at CTCC:

Besides a constant lookout via our firewall and antimalware/antivirus software, we use a next-generation layer 7 appliance that combines machine learning, cloud technology, and artificial intelligence, and advanced endpoint protection software along with our anti-spam email filter. As per previous years, the infrastructure and discovery plan are living documents and continually modified as changes occur. Security audits are performed with the help of a third party consulting firm every 2 years.

In 2018, our risk mitigation involved the addition of policies surrounding GDPR (the EU General Data Protection Regulation) that stipulates regulations and requirements surrounding the capture and storage of personal information. As this fundamentally reshaped the way in which data is handled across all sectors, the CTCC IT and Marketing teams performed due diligence in adding data controls, data capture and storage policies, and took steps to ensure our compliance with respect to GDPR. These steps included identifying the CTCC Information Privacy Officer, auditing the data already stored, identifying all data sources, creating privacy rules and policies around data minimization, purpose and storage limitation, and ensuring data integrity and confidentiality. The CTCC websites have been updated to reflect express consent for the collection of anonymized metrics data.

Summary of the 2018 External Auditor Report to the Calgary Convention Centre Authority:

On the recommendation of the CCCA Audit + Finance Committee, the Board appointed Deloitte for the 2018 audit services.

Audit Conclusions:

- An unqualified opinion was issued on the financial statements;
- No significant weaknesses in internal control were identified;
- No illegal or fraudulent acts, or significant transactions inconsistent with ordinary business, were identified;
- No unusual related party transactions were identified;
- No disagreements with management, limitations placed on scope, or other difficulties were encountered during the audit;
- There were no corrected or uncorrected misstatements noted for the audit of the December 31, 2018 financial statements.

Results of Operations:

Our total revenue for the fiscal year 2018 was \$22,979,195, which included a City of Calgary operational grant of \$1,761,309. Total operating expenses were \$21,466,959 (before amortization). In 2018, we had a surplus of \$28,630, which was moved into the operating reserve fund.

In 2009, the CCCA adopted the provisions of Section 3150 of the Public Sector Accounting Board handbook, which requires governments to record, and amortize their tangible capital assets on their financial statements.

At 2018 year-end, a total of \$17,195,139 in assets was recorded on the CCCA statement of financial position. This amount has been capitalized as renovations, building enhancements and equipment.

In 2018, the Authority incurred \$2,576,228 in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, \$1,195,317 was funded by the Authority's operating reserve and \$0 was funded by the Authority's Major Replacement Reserve. \$953,796 was applied for and funded through the City's CPRiiP (Culture Parks Recreation Infrastructure Investment Fund) \$427,115 was funded by capital lease.

In addition, the Centre stewarded \$2,493,850 from the Calgary Hotel Association, which was restricted to supporting management of Meetings and Conventions Calgary.

Calgary TELUS Convention Centre		
Capital Expenditures to December 31, 2018		
Additions	December 31, 2018	December 31, 2017
Main Breaker Replacement S Bldg/Glenbow	4,050.00	23,350
Glen 201-204 Lighting Dimming System Replacement	150.00	101,287
Exterior Doors & Skylights - WIP @ YE 2016	125,358.77	663,513
Carpets Replacement - WIP @ YE2016	56,197.60	771,693

Banquet and Meeting Chairs	-	1,253,768
In House Sound System Refresh \$150k	7,902.27	142,346
Rejuvenation Projects Telus 111 \$91k	32,648.40	-
Public Spaces Audio \$38k	-	15,000
Rejuvenation Projects Ideation Chinook 4 \$72k	7,632.53	
Rejuvenation Projects Ideation Chinook 1 \$57k	13,657.69	
Rejuvenation Projects Ideation Chinook Foyer \$37k	1,303.80	
Rejuvenation Projects Telus 112 \$37k	11,396.58	
Rejuvenation Projects Glen 210 \$113k	68,199.60	
CPRiiPs Projects 2018 Phone System Replacement \$150k	134,460.26	
CPRiiPs Projects 2018 Breaker Replacement South Building \$250k	86,352.40	
CPRiiPs Projects 2018 Loading Dock Expansion Joint \$75k	53,900.00	
CPRiiPs Projects 2018 North Building Lighting Control System \$300k	320,855.00	
CPRiiPs Projects 2018 Security CCTV / Access Upgrade \$170k	518,235.05	
CPRiiPs Projects 2018 North Building Ceiling and Fixtures \$70k	57,662.71	
Rejuvenation Projects Arts Commons +15 Walkway	26,287.66	
CPRiiPs Projects 2018 Dishwasher Replacement \$290k	281,964.50	
Building - Misc	201,003.58	7,899
Security Equipment - Misc	10,584.03	-
Communication Equipment - Misc	-	4,480
Computers - Misc	77,570.84	60,780
Event Services Equipment - Misc	11,081.46	74,994
Event Services Equipment Under Capital Lease	385,747.59	-
Housekeeping equipment - Misc	3,600.43	-
Housekeeping equipment Under Capital Lease	41,366.94	
Shop Equipment - Misc	-	31,424
Software - Misc	37,058.18	26,117

Total Additions	2,576,228	3,176,650
Disposals to date this year		
Communication Equipment	-	(12,325)
Computer Equipment	-	(57,482)
Event Services Equipment	-	(401,553)
Renovations	-	(541,134)
Software	-	(218,095)
	-	(1,230,589)
Funding		
Major Replacement Reserve	-	174,912
City of Calgary - CPRiiPs	953,796	1,336,716
Leased	427,115	-
Operating Reserve	1,195,318	1,665,022
	2,576,228	3,176,650

1. Audit Committee 2019 Work Plan

CCCA Audit & Finance Committee 2019 Work Plan

Date	Topic
Quarter 1	2018 4 th Quarter Financials
Quarter 2	2018 Audit (Deloitte Presentation) Recommendation of appointment of external auditor 2019 1st Quarter Financials

2018 Annual Report

calgary TELUS convention
centre
be part of the energy™

Who We Are

Established in 1974 as Canada's first purpose-built convention centre, the Calgary TELUS Convention Centre (CTCC) continues to deliver unparalleled service to its clients on a local, national and international scale.

Each and every day, we strive to host unique experiences to more than 175,000 guests who walk through our doors every year. We focus on hospitality, prosperity and enlightened growth so that each guest leaves with an appreciation for the experience they just had. Whether they come for a small business meeting or attend a 3,000 person keynote speaking event, each of our guests can revel in our space in which we take pride in.

Located in downtown Calgary, we are proud ambassadors of our city and can often be found partnering with local establishments to give our guests the chance to experience local surroundings.

This Annual Report delivers our latest year in review. It serves as an opportunity for us to look back on all of our successes we have accomplished as a team. While we reflect back on 2018, we also look ahead to the many events and opportunities we have yet to accomplish in the years to come.



Table of Contents

Who We Are	2
<i>Message from the Chair</i>	<i>4</i>
<i>Message from the CEO.....</i>	<i>5</i>
<i>Board of Directors.....</i>	<i>6-7</i>
<i>Operating Agreements & Partners</i>	<i>8</i>
<i>Memberships</i>	<i>9</i>
CTCC Overview & 2018 Accomplishments	10
<i>Building Our Brand.....</i>	<i>10</i>
<i>Building Our Community.....</i>	<i>11</i>
<i>Building Our People</i>	<i>11</i>
<i>Building Our Business.....</i>	<i>11</i>
<i>Strengthening Our Financials</i>	<i>12</i>
<i>Strengthening Our Operations.....</i>	<i>12</i>
<i>Meetings & Conventions Calgary Successes.....</i>	<i>13</i>
Financial Statements.....	14
<i>Independent Auditors Report</i>	<i>14</i>
<i>Statements</i>	<i>18-21</i>
<i>Notes to the Financial Statements.....</i>	<i>22-33</i>
In Closing	34



Message from the Chair

What an exciting year for the Calgary Convention Centre Authority (CCCA). As we continued to drive the meeting and convention industry on behalf of Calgarians and City Council, we have been encouraged by the elevated awareness and commitment to this critical cog in Calgary's economic wheel.

Meetings Mean Business Canada (MMB Canada) endorsed a report by Oxford Economics that pegged Canada's Meetings and Convention industry at US\$33.1 Billion in economic impact. This report demonstrates the significance of the industry while highlighting the impact on the lives of Canadians. 229,000 jobs are attributed to the industry from coast to coast to coast.

In a report by Business Events Sydney, it was clear that the convention industry drives significant visitor engagement. According to the study, 69% of delegates interviewed would not have visited Sydney, Australia had it not been for a convention, and 72% of those who attended, planned to return for a leisure or business visit. This demonstrates the importance of bringing international delegates to a city through meetings and conventions.

Closer to home, we are proud to say we have an effective volunteer board of directors who work tirelessly for Calgary. These professionals come from various backgrounds

to advise and guide the CCCA and the Calgary TELUS Convention Centre operations to extract maximum economic impact from the activities of the organization.

We are pleased to deliver in this report a more fulsome view on our economic impact numbers and the stories behind them. The Calgarians that benefit from the work of the CCCA and the CTCC is significant and sheds light on the importance of our downtown core, historic and now urban Stephan Avenue and Canada's first purpose-built convention centre.

I want to thank City Council and City Administration for their great support of the CTCC this year. We are proud of the work we do to maximize your investment in the CTCC and continue to drive economic prosperity, diversification and animation of downtown Calgary for our citizens and the delegates who visit this great city.

I hope you enjoy this read. It has been a fantastic year!



Tom Bornhorst

Chair, Board of Directors

Calgary Convention Centre Authority

Message from the CEO

2018 was a whirlwind of change and re-invention for the CTCC. Growing beyond ourselves to embrace the downtown core in new and unique ways has been, and continues to be, a focus of the CTCC. Through the trusted relationships with our key stakeholders in the district, we create an amazing and vibrant atmosphere that provides a dynamic experience our clients and delegates are seeking.

Since our re-visioning in 2017, we have certainly transformed many aspects of the organization with an eye on our client and their delegates guiding us every day. This is what we do. Work with those event designers and professional conference organizers to imagine and create their special and often personal vision of an event experience.



Clark Grue

President & CEO

Calgary TELUS Convention Centre

Driven by our clients in Calgary, Canada and around the world, we have worked hard to understand who they are, what they are looking for in an event and how they want their delegates to experience Calgary.

Whether they have been to our city before or not, the “delegate experience lens” is a constant focal point to allow us to “wow” our guests.

Many may not be aware that we have an economic development mandate. This is a key to our renewed focus. For us, this means driving economic activity into Calgary; exposing our city to national and global thought leaders; attracting and building key events that connect Calgarians to the world; AND running a sustainable and efficient city-owned facility. This year, our total economic impact for Calgary reached \$133.8 Million.

This broad view on our mission is important for Calgarians to understand and embrace. The meetings and convention industry is a US\$1 Trillion industry globally. Calgary has an opportunity to attract a far greater share of this economy-stimulating industry as we work to regain our economic prominence within the Canadian landscape.

We are excited for 2019 and what it will bring: continued rejuvenation of the Centre, working closely with our neighbours to create a joint offering of space and experience, and welcoming more global visitors to our centre, neighbourhood and city.

We invite you to come and see what’s new at the Calgary TELUS Convention Centre.

Calgary Convention Centre Authority (CCCA)

Board of Directors



Tom Bornhorst
Chair, Board of Directors



Georgine Ulmer
*Chair, Governance &
Human Resources Committee*



Levonne Louie
Director



Wellington Holbrook
Director



Gillian Basford
Director



Greg Yont
Director



Diane Colley-Urquhart
*Council Member,
The City of Calgary*



Robert Palmer
*Chair, Audit &
Finance Committee*



David Duckworth
*General Manager,
The City of Calgary*



Leslie Weekes
Vice Chair



Mayor Naheed Nenshi
The City of Calgary

Board Notes

- Added one new dynamic Board member
- Continued to strengthen our governance functionality
- Implemented an Enterprise Risk Management system; building on our Operational Risk Management system already in place
- Increased our forward-looking strategic planning



The CCCA maintains active operating agreements to:

- Maintain, repair and clean the Glenbow Museum
- Maintain and repair retail spaces owned by the City of Calgary in the CTCC North Building
- Operate and maintain the shared loading dock in the CTCC North Building; with the City of Calgary and Balboa Land Investments
- Assign exclusive rights for all food and beverage services in the CTCC to the attached hotel, currently the Calgary Marriott Downtown
- Manage Meetings + Conventions Calgary; with Calgary Hotel Association
- Assign naming rights to CTCC; with TELUS

Partners

CTCC partners with many local, national and international organizations to leverage our reach, our resources and our expertise. They are:

- Calgary Downtown Marriott Hotel
- FMAV
- St. George Show Services
- Calgary Hotel Association
- Calgary Economic Development
- Calgary Downtown Association
- Travel Alberta
- Tourism Calgary
- Business Events Canada/ Destination Canada
- Canada/UK Chamber
- Meetings + Conventions Calgary

Memberships

As an active member in the convention and meeting space, CTCC belongs to various local, national and international trade organizations including:

- International Association of Congress Centres
- Convention Centres of Canada
- International Congress and Convention Association
- International Association of Assembly Managers
- Meeting Professionals International
- Professional Convention Management Association
- American Society of Association Executives
- Canadian Society of Association Executives
- International Association of Venue Managers
- Calgary Chamber of Commerce
- Tourism Calgary
- Canadian Chamber of Commerce
- Tourism Industry Association of Canada
- Meetings Mean Business Canada
- International Association of Convention Centres
- International Live Events Association
- Canada/UK Chamber
- Risk Management Society International Leaders Association



CTCC Overview & 2018 Accomplishments

Over the last year, we continued to implement our strategic plan: setting and achieving our goals for revenue, operational efficiencies, energy savings, rejuvenations, occupancy, event development, staff development, community engagement, and partnerships.

Here are some of our key highlights from 2018 that represent our growth as an organization and our continued focus areas for the future.

Building Our Brand

- Activated the public areas with music, art and unique furnishings
- Delivered new and relevant on-brand collateral
- Implemented an internal “You are the Brand” initiative
- Created our Brand Promise: “We Host Professional, Personalized, Customized Experiences All Ways.”
- Refined the joint marketing strategy with BMO and CTCC to sell Calgary first. “One Great City, Two Great Venues.”

Building Our Community

- Engaged our neighbourhood in a new more meaningful way through the convention district initiative.
- Collaborated with civic partners to develop a successful downtown
- Continued work experience programs for post-secondary students
- Executed an event development program for new events at the Centre

Building Our People

- Established KPIs throughout the organization tied to the strategic plan
- Created cross-departmental training to ensure efficiencies and succession planning
- Established leadership training for all management to ensure development
- Initiated an Enterprise Risk Management system into the organization
- Began update of the Respectful Workplace Policies

Building Our Business

- Established a representative in London, UK
- Elevated our standards for in-house vendors
- Rebuilt our sales team and marketing direction to meet the changing convention planner market



Strengthening Our Financials

- Total economic impact from events was \$133.8 million
- 2018 CTCC total revenue of \$22,979,195
- Achieved > \$100,000 in savings from new and improved client survey process
- Hosted 303 events including corporate town halls, local meetings, fundraising galas, and international and national conventions and conferences
- Brought in 175,192 delegates, including 25,578 non-residents, to the Centre and Calgary's downtown Convention District
- 28,721 total hotel nights booked from event delegates

Strengthening Our Operations

- Implemented Enterprise Risk Management System
- Improved operational safety standards while reducing crime, loss of life, capital and asset damage, and third party claims
- Improved efficiencies by redistributing operation standards and staffing ratio times
- Responded to market demand for more collaborative and productive space based on face-to-face interaction
- Implemented capital projects and rejuvenations such as Building Conditions Assessment and Edon report
- Conducted 3rd party assessments of operations
- Conducted best-in-class security training, upgraded security camera systems that enables increased building activations
- Overall client satisfaction in using the CTCC and its services is 97%; clients said they would come back and refer others to host an event with us



Meetings + Conventions Calgary Successes

- In partnership with BMO and CTCC secured Calgary as the Canadian bid destination to compete to host the 2023 World Petroleum Congress
- Secured the 2022 International Pediatric Nephrology Association Congress
- Secured the 2022 North American Lions Forum
- Continued our Destination sales focus under the “One Destination, Two Great Venues” campaign partnering marketing dollars with BMO, CTCC and MCC
- Partnering with Business Events Canada in national campaign promoting Calgary’s strength in CleanTech, Natural Resources and Agribusiness
- Increased our Calgary Champion Program by 10 Champion-lead conferences



Independent Auditor's Report

TO THE DIRECTORS OF THE
CALGARY CONVENTION CENTRE AUTHORITY

Opinion

We have audited the financial statements of The Calgary Convention Centre Authority (the "Authority"), which comprise the statement of financial position as at December 31, 2018, and the statements of revenues, expenses and operating reserve, changes in net financial liabilities and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2018, and the results of its operations, changes in its net financial liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further

Financial Statements

TABLE OF CONTENTS

Independent Auditor's Report	14
Statement of Financial Position	18
Statement of Revenue, Expense & Operating Reserve	19
Statement of Cash Flows.....	20
Statement of Changes in Net Financial Liabilities.....	21
Notes to the Financial Statements	22-33

described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

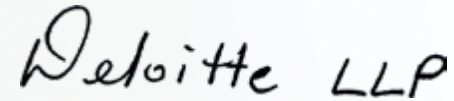
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The logo for Deloitte LLP, featuring the word "Deloitte" in a large, cursive script font, followed by "LLP" in a smaller, bold, sans-serif font.

Chartered Professional Accountants
Calgary, Alberta
May 8, 2019

"Always deliver more than expected."

— Larry Page



*The accompanying notes
 are an integral part of the
 financial statements.*

Statement of Financial Position

December 31, 2018	2018	2017
	\$	\$
FINANCIAL ASSETS		
Cash & cash equivalents	104,394	2,290,446
Restricted cash (Note 12)	127,646	106,313
Accounts receivable	3,061,112	1,658,257
Due from The City of Calgary – major replacement reserve	200,029	194,941
Investments (Note 5)	1,184,785	1,160,627
	4,677,966	5,410,584
FINANCIAL LIABILITIES		
Accounts payable and accrued liabilities (Notes 8 & 12)	3,473,562	3,246,098
Client deposits	1,933,470	1,822,965
Lease obligations (Note 14)	373,722	-
	5,780,754	5,069,063
Net Financial (Liabilities) Assets	(1,102,788)	341,521
NON-FINANCIAL ASSETS		
Tangible capital assets (Note 6)	5,917,789	4,645,167
Prepaid expenses	477,414	97,097
	6,395,203	4,742,264
ACCUMULATED SURPLUS IS REPRESENTED BY		
Major replacement reserve (Note 4)	200,030	20,030
Operating reserve	5,092,385	5,063,755
	5,292,415	5,083,785

Approved by the Board

 Director

 Director

*The accompanying notes
 are an integral part of the
 financial statements.*

Statement of Revenue, Expense & Operating Reserve

Year ended December 31, 2018	2018 BUDGET	2018 ACTUAL	2017 ACTUAL
	\$	\$	\$
	(Note 11)		
REVENUE			
Operating (Note 12)	21,058,691	21,037,886	19,145,823
Grants from The City of Calgary	1,941,309	1,941,309	1,878,171
	23,000,000	22,979,195	21,023,994
EXPENSES			
Administrative and general	1,833,749	2,103,092	1,993,086
Amortization	700,000	1,303,606	734,704
Marketing	1,924,860	1,585,125	1,346,395
Operations and maintenance (Note 12)	18,087,967	17,778,742	16,345,994
	22,546,576	22,770,565	20,420,179
Operating surplus before the undernoted	453,424	208,630	603,815
Major replacement reserve (Notes 4 & 10)	-	(180,000)	(5,088)
Loss on disposal of tangible capital assets	-	-	(1,962)
Operating surplus for the year	453,424	28,630	596,765
OPERATING RESERVE, BEGINNING OF YEAR	5,063,755	5,063,755	4,466,990
OPERATING RESERVE, END OF YEAR	5,517,179	5,092,385	5,063,755

Statement of Cash Flows

Year ended December 31, 2018

	2018	2017
	\$	\$
OPERATING ACTIVITIES		
Operating surplus for the year	28,630	596,765
Items not affecting cash and equivalents		
Amortization	1,303,606	734,704
Loss on disposal of tangible capital assets	-	1,962
	1,332,236	1,333,431
Changes in non-cash working capital		
Accounts receivable	(1,402,855)	573,280
Accounts payable and accrued liabilities	(251,380)	(1,752,325)
Client deposits	110,505	(383,019)
Lease obligations	(53,393)	-
Prepaid expenses	(380,317)	(15,880)
Major replacement reserve	180,000	5,088
	(465,204)	(239,425)
INVESTING ACTIVITIES		
Purchases of tangible capital assets	(2,149,113)	(3,176,650)
Proceeds from disposal of tangible capital assets	-	69,803
Change in restricted cash	(21,333)	(38,872)
Purchases of short-term investments	(2,431,891)	(1,919,166)
Proceeds from disposal of short-term investments	2,407,733	5,907,758
Changes in non-cash working capital		
Due from The City of Calgary - major replacement reserve	(5,088)	46,836
Accounts payable and accrued liabilities	478,844	292,155
	(1,720,848)	1,181,864
Net (decrease) increase in cash and cash equivalents	(2,186,052)	942,439
Cash and cash equivalents, beginning of year	2,290,446	1,348,007
Cash and Cash equivalents, end of year	104,394	2,290,446
REPRESENTED BY		
(Cheques issued in excess of cash on hand) Cash	(1,173,682)	401,776
Cash equivalents	1,278,076	1,888,670
	104,394	2,290,446

Statement of Change in Net Financial Liabilities

*The accompanying notes
are an integral part of the
financial statements.*

Year ended December 31, 2018	2018	2017
	\$	\$
OPERATING SURPLUS FOR THE YEAR	28,630	596,765
Amortization	1,303,606	734,704
Write-off of tangible capital assets	-	1,962
Proceeds from disposal of tangible capital assets	-	69,803
Change in prepaid expenses	(380,317)	(15,880)
Allocation to major replacement reserve	180,000	180,000
Usage of major replacement reserve	-	(174,912)
Lease of tangible capital assets	(427,115)	-
Purchases of tangible capital assets	(2,149,113)	(3,176,650)
Decrease in net financial assets	(1,444,309)	(1,784,208)
Net financial assets, beginning of year	341,521	2,125,729
NET FINANCIAL (LIABILITIES) ASSETS, END OF YEAR	(1,102,788)	341,521

Notes to the Financial Statements

NOTE 1 • THE CALGARY CONVENTION CENTRE AUTHORITY

The Calgary Convention Centre Authority (the “Authority”) is incorporated under the laws of the province of Alberta and operated as the Calgary TELUS Convention Centre (the “Centre”) pursuant to an operating agreement between the Authority and The City of Calgary (“The City”). The land, building, furniture and equipment are owned by The City, which also contributes a grant towards the operating costs of the Centre. In accordance with an amendment to the operating agreement, the Authority retains operating surpluses. Surpluses are placed in an operating reserve and are used to cover capital expenditures, extraordinary expenditures and any annual deficits, which may be incurred.

Under an extended lease agreement to expire in 2039, the Calgary Marriott acts as the exclusive caterer to the Centre.

NOTE 2 • SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared in accordance with Canadian public sector accounting standards (“PSAS”). The Authority’s significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in bank accounts at Canadian financial institutions and short-term investments with maturities of a short-term nature, usually less than 90 days.

Investments

Investments represent Guaranteed Investment Certificates (“GIC”) with original maturities greater than 90 days. Investments are recorded at fair value.

Client deposits

Client deposits represent amounts received from customers for events that have not yet occurred. These amounts are recognized as revenue in the period when the related event occurs.

Revenue recognition

Revenue comprises revenues earned from convention services, functions, food and beverage services and grant revenue received from The City. Revenues for convention services, functions and food and beverage services are recognized when the service is performed, the price is determinable and collection is reasonably assured. Grant revenue is received from The City on a quarterly basis. A proportionate amount is recognized each month. Revenue and expenses are recognized on a gross basis.

Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. Donated assets are recorded as capital items, with the offset to revenue at their estimated fair value upon acquisition. Interest charges are not capitalized. The cost, less residual value, of tangible capital assets is amortized on a straight-line or declining-balance basis over the assets' estimated useful lives as follows:

Renovations	3-year straight-line
Building enhancements	20% declining-balance
Computer equipment	55% declining-balance
Other equipment	20% declining-balance

Revenue from government grants and transfers relating to capital acquisitions will be recognized on a straight-line basis as the capital expenditure is incurred.

Impairment of tangible capital assets

Tangible capital assets are reviewed periodically for impairment. An impairment loss will be recognized in the period when the service potential of a capital asset will be either substantially reduced or eliminated altogether by an intervening event such as natural disaster, accident and obsolescence.

Use of estimates

The financial statements are prepared in accordance with PSAS, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue, expenses and operating reserve during the year. Items subject to estimation include the valuation allowance pertaining to receivables, estimated useful lives, amortization and potential impairment of tangible capital assets, and the impact of contingencies on accrued liabilities. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

New Accounting Standards In Effect

The Authority has adopted the following standards with an effective date of January 1, 2018: PS 2200 Related Party Disclosures, PS 3210 Assets, PS 3320 Contingent Assets, PS 3380 Contractual Rights, PS 3420 Inter-entity Transactions. The adoption of the new standards resulted in additional note disclosures in the financial statements.

PS 2200 Related Party Disclosures, a new standard defining related parties and establishing guidance on disclosure requirements for related party transactions. The adoption of this standard did not have an impact on the financial statements.

NOTE 2 • SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PS 3210 Assets, a new standard providing guidance for applying the definition of assets and establishing disclosure requirements for assets. The adoption of this standard did not have an impact on the financial statements.

PS 3320 Contingent Assets, a new standard defining and establishing guidance on disclosure requirements for contingent assets. The adoption of this standard did not have an impact on the financial statements.

PS 3380 Contractual Rights, a new standard defining and establishing a guidance on disclosure requirements for contractual rights. This standard resulted in additional disclosure in the financial statements (see Note 15).

PS 3420 Inter-Entity Transactions, a new standard defining and establishing guidance on the accounting and disclosure requirements for inter-entity transactions. The Authority does not have any unallocated or nominal value inter-entity transactions as such this standard did not have a material impact on the financial statements. All inter-entity transactions are in the normal course of operations and are settled under normal trade terms.

Future Accounting Pronouncements

The following new accounting standards were issued by the Public Sector Accounting Board (PSAB). The Authority continues to assess the impacts of the standards.

Effective for fiscal years beginning on or after April 1, 2018

PS 3430 – Restructuring Transactions establishes how to record assets, liabilities, revenues, and expenses related to restructuring transactions as well as disclosure requirements for the recipient and transferor.

Effective for fiscal years beginning on or after April 1, 2021

PS 3250 Asset Retirement Obligations provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

Effective for fiscal years beginning on or after April 1, 2022

PS 3400 Revenue provides guidance on the recognition of revenue that distinguishes between revenue that arises from transactions that include performance obligations and from transactions that do not have performance obligations.

NOTE 3 • CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on deposit and short-term GICs with original maturities of 90 days or less at the date of acquisition and are recorded at cost plus interest earned. The effective interest rate on the GICs held during the year was 1.77% (1.57% in 2017) per annum. As at December 31, 2018, the Authority held \$1,278,076 (\$1,888,670 at 2017) in short-term GICs and \$1,184,785 (\$1,160,627 in 2017) in longterm GICs (Note 5).

The Authority has an operating demand loan facility to a maximum of \$2,400,000. This facility is secured by GICs in the amount of \$2,400,000. The interest rate on the facility fluctuates with the Bank of Montreal's prime rate per annum. At December 31, 2018, the balance of the facility was \$nil (2017 – \$nil).

NOTE 4 • MAJOR REPLACEMENT RESERVE

The Authority records an annual appropriation for facility refurbishment and major renovations. The appropriation for the year totaled \$180,000 (\$180,000 in 2017).

	2018	2017
	\$	\$
Balance, beginning of year	20,030	14,942
Increase in provision for the year	180,000	180,000
Major replacement expenditures (Note 10)	-	(174,912)
Balance, end of year	200,030	20,030



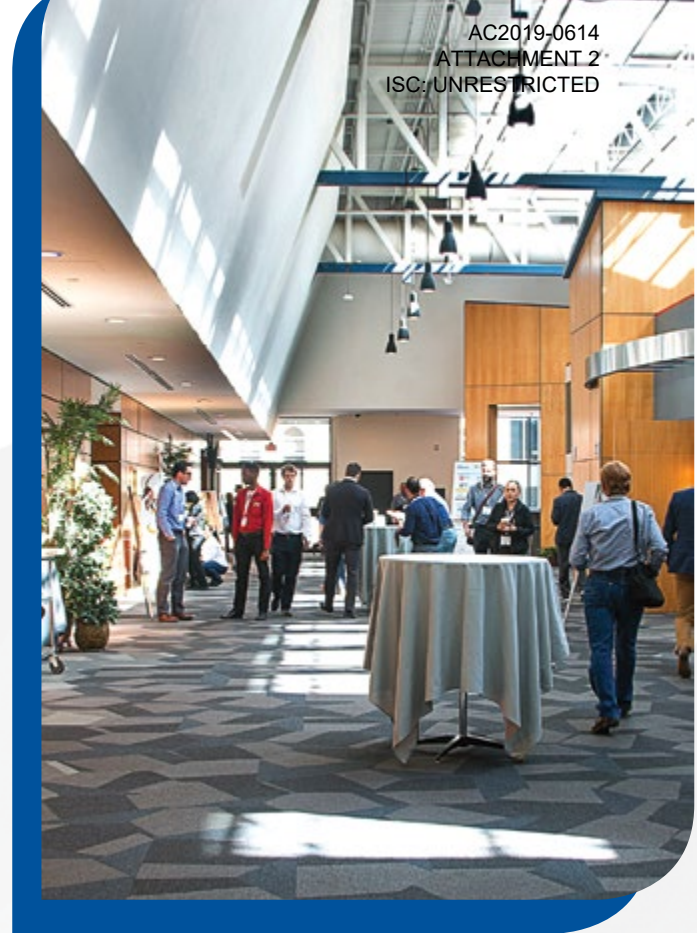
NOTE 5 • INVESTMENTS

Investments consist of GICs with a maturity date not greater than five years from December 31, 2018 bearing interest from 1.50% to 2.65% (1.10% to 2.00% in 2017) per annum.

The fair value of the investments has been determined to be the principal plus interest earned to date.

	2018		
	Cost	Accrued interest	Fair value
	\$	\$	\$
Rate Riser Plus GIC 0037	597,500	45,915	643,415
Rate Riser Plus GIC 0038	506,250	35,120	541,370
	1,103,750	81,035	1,184,785

	2017		
	Cost	Accrued interest	Fair value
	\$	\$	\$
Rate Riser Plus GIC 0037	597,500	32,352	629,852
Rate Riser Plus GIC 0038	506,250	24,525	530,775
	1,103,750	56,877	1,160,627



NOTE 6 • TANGIBLE CAPITAL ASSETS

In accordance with PSAB Handbook Section 3150, The City has performed a review of the ownership and control of the land, building enhancements and equipment of the Centre. Accordingly, the Centre is recorded on the financial statements of The City. The Authority currently has an operating lease with The City, which was renewed on January 22, 2018 and is scheduled for renewal on January 22, 2021. The contract has a nominal fee, the cost of which has been recorded through operations and maintenance expense. Capital leases of \$427,115 are included in other equipment.

	2018		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Renovations	6,827,559	6,827,559	-
Building enhancements	3,431,255	1,291,508	2,139,747
Computer equipment	735,159	506,711	228,448
Other equipment	6,201,166	2,651,572	3,549,594
	17,195,139	11,277,350	5,917,789

	2017		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Renovations	6,827,559	6,637,411	190,148
Building enhancements	2,125,156	856,621	1,268,535
Computer equipment	522,743	406,082	116,661
Other equipment	5,143,454	2,073,631	3,069,823
	14,618,912	9,973,745	4,645,167

NOTE 7 • EMPLOYEE BENEFITS

The Authority participates in the Local Authorities Pension Plan ("LAPP"), which is a multi-employer benefit plan. This plan is governed by the Public Sector Pension Plans Act. Based on the latest information available (December 31, 2017 audited financial statements), in total, the LAPP had an actuarial surplus of \$4.835 million (deficit of \$637 million in 2016).

The Authority is required to make current service contributions to the LAPP of 11.39% of pensionable payroll up to the yearly maximum pensionable earnings ("YMPE"), and 15.84% thereafter.

NOTE 7 • EMPLOYEE BENEFITS (CONTINUED)

Employees of the Authority are required to make current service contributions of 10.39% of pensionable salary up to the YMPE, and 14.84% thereafter. Contributions for current services are recorded as expenditures in the year in which they become due.

Total current service contributions, as reflected in the administrative and general, marketing and operations and maintenance expenses in the statement of revenue, expenses and operating reserve by the Authority to the LAPP during the year, were \$497,178 (\$592,119 in 2017). Total current service contributions by the employees of the Authority to the LAPP for the year were \$435,775 (\$544,579 in 2017).

NOTE 8 • ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

In accordance with the Meetings, Conventions and Incentive Travel ("MC&IT") marketing funding and management agreement (the "Agreement") between the Calgary Hotel Association and the Authority, the Calgary Hotel Association advances funds to the Authority to fund incentive payments for future events through Meetings & Conventions Calgary as well as to cover operating expenses incurred by the Authority. As at December 31, 2018, an amount of \$111,557 (\$221,472 at 2017) advanced by the Calgary Hotel Association is included in

accounts payable and accrued liabilities as well as in cash and cash equivalents and investments to be used by the Authority in accordance with the Agreement as described above. Of the funds held, the amount held by the Authority for incentive funding is \$90,975 (\$182,094 in 2017) and the amount held by the Authority for future operating expenses is \$20,582 (\$39,378 in 2017).

During the year, the Authority disbursed from the incentive funds \$779,312 (\$753,714 in 2017) to events held in the city, returned \$0 (\$800,000 in 2017) to the Calgary Hotel Association and earned \$2,192 (\$9,312 in 2017) in interest on the funds held. The Authority has committed on behalf of the Calgary Hotel Association a total of \$2,413,037 (\$2,741,695 in 2017) for future events to be paid out over the years 2018 to 2025. Funding for the commitments that have been made on behalf of the Calgary Hotel Association for future events that are to be paid in 2019 until the November 1, 2019 termination date of the agreement will be funded on an as needed basis. Surplus funds, if any, will be returned to the Calgary Hotel Association.

NOTE 9 • FINANCIAL INSTRUMENTS

The Authority's financial instruments are cash and cash equivalents, accounts receivable, due from The City of Calgary — major replacement reserve, investments, accounts payable and accrued liabilities, and client deposits.

The carrying values of these items approximate their fair values due to their short-term nature.

The Authority's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash is placed with major financial institutions. Concentration of credit risk with respect to receivables is limited due to the large number of customers and their dispersion across geographic areas.

NOTE 10 • MAJOR CAPITAL ADDITIONS

During the year, the Authority incurred \$2,576,228 (\$3,176,650 in 2017) in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, \$1,195,317 (\$1,665,022 in 2017) was funded by the Authority's operating reserve and \$0 (\$174,912 in 2017) was funded by the Authority's major replacement reserve. \$953,796 (\$1,336,716 in 2017) was applied for and funded through The City's CPRiiP (Culture Parks Recreation Infrastructure Investment Fund) Program for the capital additions made in 2018. \$427,115 (\$0 in 2017) was funded by capital lease (see Note 14).

NOTE 11 • 2018 BUDGET

The budgeted amounts presented in the financial statements are based on operating and capital budgets approved by the board of directors.



NOTE 12 • CALGARY CONVENTION CENTRE AUTHORITY RESPONSIBILITIES

The following cost sharing arrangements were considered in the PSAS memo, but were determined that these were not abnormal in relation to the financial position or usual business operations.

Glenbow Museum

Through an agreement with The City, the Authority provides maintenance, engineering, housekeeping and capital project supervision for the Glenbow Museum. Expenses of \$1,548,677 (\$1,289,330 in 2017) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee of \$87,000 (\$87,000 in 2017) totaling \$1,635,677 (\$1,375,980 in 2017) are included in operating revenue of the Authority. Capital projects supervised by the Authority totaled \$312,410 (\$7,880 in 2017) during the year.

Retail Spaces, North Building

The Authority provides basic property management services for the retail spaces and parkade in the north building to the City of Calgary Real Estate and Development Services and the Calgary Parking Authority respectively. Expenses of \$452,805 (\$418,271 in 2017) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee \$490,771 (\$455,655 in 2017) are included in operating revenue of the Authority.

Meetings + Conventions Calgary

Through an agreement with the Calgary Hotel Association, the Authority provides management and operation of destination sales and marketing for MC&IT.

Expenses of \$3,161,134 (\$2,904,914 in 2017) incurred in provision of these services are included in the expenses of the Authority. Funding to cover these expenses \$3,161,134 (\$2,904,914 in 2017) is reported net of expenses. Pursuant to the agreement, effective January 1, 2014 the Authority charges an administration/marketing fee for management and operation of the program. The fee of \$185,964 (\$185,964 in 2017) is included in the operating revenue of the Authority.

The agreement has been terminated effective November 1, 2019. Unused funds at the termination of the agreement will be returned to the Calgary Hotel Association.

Convention Centres of Canada

The Authority holds and administers the restricted funds of the Convention Centres of Canada, an affiliation of 21 major Canadian convention centres. As at December 31, 2018, an amount of \$97,626 (\$67,246 at 2017) is included in accounts payable and accrued liabilities as well as restricted cash. The funds will be transferred to and administered by the office of the executive director of the Convention Centres of Canada in 2019.

Energy Cities Alliance

The Authority holds and administers the restricted funds of the Energy Cities Alliance, a marketing partnership of convention centres. As at December 31, 2018, an amount of \$9,437 (\$9,689 at 2017) is included in accounts payable and accrued liabilities as well as restricted cash. The funds will be transferred to and administered by one of the other members of the marketing partnership in 2019.

NOTE 13 • COMMITMENTS

As of December 31, 2018, the Authority has commitments related to the lease of office equipment, furniture, housekeeping equipment, and communications equipment payable within the next three years as follows.

	\$
2019	320,173
2020	309,593
2021	300,837
2022	162,488
2023	69,227
	1,162,318

NOTE 14 • CAPITAL LEASE OBLIGATIONS

As of December 31, 2018 the Authority has the following capital lease obligations.

	2018	2017
	\$	\$
Obligation under capital lease for event furniture, monthly payment of \$7,063 with interest at a rate of 6.810%, maturing on April 30, 2022	277,665	-
Obligation under capital lease for event furniture, monthly payment of \$1,394, with interest at a rate of 6.889%, maturing on April 30, 2022	54,690	-
Obligation under capital lease for floor scrubber with interest at a rate of 6.990%, maturing on July 1, 2023	41,367	-
	373,722	-
Less current portion	88,800	-
	284,922	-



Future minimum lease payments, including principal and interest, under the capital leases for subsequent years are as follows.

	\$
2019	111,380
2020	111,380
2021	111,380
2022	82,300
2023	9,086
	<u>425,526</u>

The obligations under capital leases are secured by the underlying leased assets.

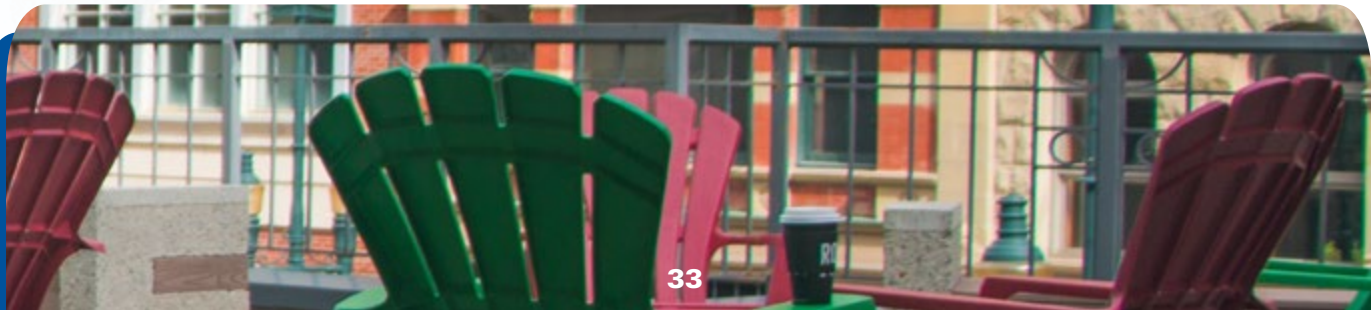
NOTE 15 • CONTRACTUAL RIGHTS

Contractual rights are rights of the Authority to economic resources arising from contracts or agreements that will result

in both assets and revenues in the future when the terms of those contract or agreements are met. As of December 31, 2018 the Authority has the following contractual rights.

Estimated amounts that will be received or receivable for each of the next five years and thereafter are as follows:

	Lease of space or equipment	Licensing payments	Total
	\$	\$	\$
2019	20,000	231,006	251,006
2020	20,000	171,774	191,774
2021	8,333	171,774	180,107
2022	-	171,774	171,774
2023	-	99,194	99,194
Thereafter	-	800,000	800,000
	<u>48,333</u>	<u>1,645,522</u>	<u>1,693,855</u>



In Closing

Calgary TELUS Convention Centre continually strives to facilitate and host events that connect people in meaningful ways. Our people continue to go beyond expectation to give our clients professional, personalized and customized experiences. As we reflect on this past year in review, it is important to highlight our biggest achievements that will continue to define our performance above the competition:

- Develop strategic markets
- Drive economic impact
- Activate Convention District
- Deliver customized client experiences
- Develop additional lines of revenue

Overall, the Calgary TELUS Convention Centre will continue to thrive within the 2019 fiscal year while continuing to lead Calgary to increase the economic impact of conventions and meetings in our city.





calgary TELUS convention
centre
be part of the energy™

120 NINTH AVENUE SE
CALGARY, ALBERTA, CANADA T2G 0P3
CALGARY-CONVENTION.COM

MAIN 403.261.8500
TOLL FREE 1.800.822.2697
SALES@CALGARY-CONVENTION.COM



Financial statements of The Calgary Convention Centre Authority

December 31, 2018

Independent Auditor's Report	1-2
Statement of financial position	3
Statement of revenue, expenses and operating reserve	4
Statement of changes in net financial liabilities	5
Statement of cash flows	6
Notes to the financial statements	7-14

Independent Auditor's Report

To The Directors of
The Calgary Convention Centre Authority

Opinion

We have audited the financial statements of The Calgary Convention Centre Authority (the "Authority"), which comprise the statement of financial position as at December 31, 2018, and the statements of revenues, expenses and operating reserve, changes in net financial liabilities and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2018, and the results of its operations, changes in its net financial liabilities, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Authority or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Authority to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Calgary, Alberta
May 8, 2019

The Calgary Convention Centre Authority
Statement of financial position

As at December 31, 2018

	Notes	2018 \$	2017 \$
Financial assets			
Cash and cash equivalents		104,394	2,290,446
Restricted cash	12	127,646	106,313
Accounts receivable		3,061,112	1,658,257
Due from The City of Calgary - major replacement reserve		200,029	194,941
Investments	5	1,184,785	1,160,627
		4,677,966	5,410,584
Financial liabilities			
Accounts payable and accrued liabilities	8 and 12	3,473,562	3,246,098
Client deposits		1,933,470	1,822,965
Lease obligations	14	373,722	—
		5,780,754	5,069,063
Net financial (liabilities) assets		(1,102,788)	341,521
Non-financial assets			
Tangible capital assets	6	5,917,789	4,645,167
Prepaid expenses		477,414	97,097
		6,395,203	4,742,264
Accumulated surplus is represented by			
Major replacement reserve	4	200,030	20,030
Operating reserve		5,092,385	5,063,755
		5,292,415	5,083,785

The accompanying notes are an integral part of the financial statements.

Approved by the Board


_____, Director


_____, Director

The Calgary Convention Centre Authority
Statement of revenue, expense and operating reserve

Year ended December 31, 2018

	Notes	2018 Budget \$	2018 Actual \$	2017 Actual \$
		(Note 11)		
Revenue				
Operating	12	21,058,691	21,037,886	19,145,823
Grants from The City of Calgary		1,941,309	1,941,309	1,878,171
		23,000,000	22,979,195	21,023,994
Expenses				
Administrative and general		1,833,749	2,103,092	1,993,086
Amortization		700,000	1,303,606	734,704
Marketing		1,924,860	1,585,125	1,346,395
Operations and maintenance	12	18,087,967	17,778,742	16,345,994
		22,546,576	22,770,565	20,420,179
Operating surplus before the undernoted		453,424	208,630	603,815
Major replacement reserve	4 and 10	—	(180,000)	(5,088)
Loss on disposal of tangible capital assets		—	—	(1,962)
Operating surplus for the year		453,424	28,630	596,765
Operating reserve, beginning of year		5,063,755	5,063,755	4,466,990
Operating reserve, end of year		5,517,179	5,092,385	5,063,755

The accompanying notes are an integral part of the financial statements.

The Calgary Convention Centre Authority
Statement of change in net financial liabilities

Year ended December 31, 2018

	2018	2017
	\$	\$
Operating surplus for the year	28,630	596,765
Amortization	1,303,606	734,704
Write-off of tangible capital assets	—	1,962
Proceeds from disposal of tangible capital assets	—	69,803
Change in prepaid expenses	(380,317)	(15,880)
Allocation to major replacement reserve	180,000	180,000
Usage of major replacement reserve	—	(174,912)
Lease of tangible capital assets	(427,115)	—
Purchases of tangible capital assets	(2,149,113)	(3,176,650)
Decrease in net financial assets	(1,444,309)	(1,784,208)
Net financial assets, beginning of year	341,521	2,125,729
Net financial (liabilities) assets, end of year	(1,102,788)	341,521

The accompanying notes are an integral part of the financial statements.

The Calgary Convention Centre Authority
Statement of cash flows

Year ended December 31, 2018

	2018	2017
	\$	\$
Operating activities		
Operating surplus for the year	28,630	596,765
Items not affecting cash and equivalents		
Amortization	1,303,606	734,704
Loss on disposal of tangible capital assets	—	1,962
	1,332,236	1,333,431
Changes in non-cash working capital		
Accounts receivable	(1,402,855)	573,280
Accounts payable and accrued liabilities	(251,380)	(1,752,325)
Client deposits	110,505	(383,019)
Lease obligations	(53,393)	—
Prepaid expenses	(380,317)	(15,880)
Major replacement reserve	180,000	5,088
	(465,204)	(239,425)
Investing activities		
Purchases of tangible capital assets	(2,149,113)	(3,176,650)
Proceeds from disposal of tangible capital assets	—	69,803
Change in restricted cash	(21,333)	(38,872)
Purchases of short-term investments	(2,431,891)	(1,919,166)
Proceeds from disposal of short-term investments	2,407,733	5,907,758
Changes in non-cash working capital		
Due from The City of Calgary - major replacement reserve	(5,088)	46,836
Accounts payable and accrued liabilities	478,844	292,155
	(1,720,848)	1,181,864
Net (decrease) increase in cash and cash equivalents	(2,186,052)	942,439
Cash and cash equivalents, beginning of year	2,290,446	1,348,007
Cash and cash equivalents, end of year	104,394	2,290,446
Represented by		
(Cheques issued in excess of cash on hand) Cash	(1,173,682)	401,776
Cash equivalents	1,278,076	1,888,670
	104,394	2,290,446

The accompanying notes are an integral part of the financial statements.

The Calgary Convention Centre Authority

Notes to the financial statements

December 31, 2018

1. The Calgary Convention Centre Authority

The Calgary Convention Centre Authority (the "Authority") is incorporated under the laws of the province of Alberta and operated as the Calgary TELUS Convention Centre (the "Centre") pursuant to an operating agreement between the Authority and The City of Calgary ("The City"). The land, building, furniture and equipment are owned by The City, which also contributes a grant towards the operating costs of the Centre. In accordance with an amendment to the operating agreement, the Authority retains operating surpluses. Surpluses are placed in an operating reserve and are used to cover capital expenditures, extraordinary expenditures and any annual deficits, which may be incurred.

Under an extended lease agreement to expire in 2039, the Calgary Marriott acts as the exclusive caterer to the Centre.

2. Significant accounting policies

These financial statements are prepared in accordance with Canadian public sector accounting standards ("PSAS"). The Authority's significant accounting policies are as follows:

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits in bank accounts at Canadian financial institutions and short-term investments with maturities of a short-term nature, usually less than 90 days.

Investments

Investments represent Guaranteed Investment Certificates ("GIC") with original maturities greater than 90 days. Investments are recorded at fair value.

Client deposits

Client deposits represent amounts received from customers for events that have not yet occurred. These amounts are recognized as revenue in the period when the related event occurs.

Revenue recognition

Revenue comprises revenues earned from convention services, functions, food and beverage services and grant revenue received from The City. Revenues for convention services, functions and food and beverage services are recognized when the service is performed, the price is determinable and collection is reasonably assured. Grant revenue is received from The City on a quarterly basis. A proportionate amount is recognized each month. Revenue and expenses are recognized on a gross basis.

Tangible capital assets

Tangible capital assets are recorded at cost, which includes all amounts that are directly attributable to the acquisition, construction, development, or betterment of the asset. Donated assets are recorded as capital items, with the offset to revenue at their estimated fair value upon acquisition. Interest charges are not capitalized. The cost, less residual value, of tangible capital assets is amortized on a straight-line or declining-balance basis over the assets' estimated useful lives as follows:

Renovations	3-year straight-line
Building enhancements	20% declining-balance
Computer equipment	55% declining-balance
Other equipment	20% declining-balance

The Calgary Convention Centre Authority
Notes to the financial statements
December 31, 2018

2. Significant accounting policies (continued)

Tangible capital assets (continued)

Revenue from government grants and transfers relating to capital acquisitions will be recognized on a straight-line basis as the capital expenditure is incurred.

Impairment of tangible capital assets

Tangible capital assets are reviewed periodically for impairment. An impairment loss will be recognized in the period when the service potential of a capital asset will be either substantially reduced or eliminated altogether by an intervening event such as natural disaster, accident and obsolescence.

Use of estimates

The financial statements are prepared in accordance with PSAS, which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue, expenses and operating reserve during the year. Items subject to estimation include the valuation allowance pertaining to receivables, estimated useful lives, amortization and potential impairment of tangible capital assets, and the impact of contingencies on accrued liabilities. Where measurement uncertainty exists, the financial statements have been prepared within reasonable limits of materiality. Actual results could differ from those estimates.

New Accounting Standards In Effect

The Authority has adopted the following standards with an effective date of January 1, 2018: PS 2200 Related Party Disclosures, PS 3210 Assets, PS 3320 Contingent Assets, PS 3380 Contractual Rights, PS 3420 Inter-entity Transactions. The adoption of the new standards resulted in additional note disclosures in the financial statements.

PS 2200 Related Party Disclosures, a new standard defining related parties and establishing guidance on disclosure requirements for related party transactions. The adoption of this standard did not have an impact on the financial statements.

PS 3210 Assets, a new standard providing guidance for applying the definition of assets and establishing disclosure requirements for assets. The adoption of this standard did not have an impact on the financial statements.

PS 3320 Contingent Assets, a new standard defining and establishing guidance on disclosure requirements for contingent assets. The adoption of this standard did not have an impact on the financial statements.

PS 3380 Contractual Rights, a new standard defining and establishing a guidance on disclosure requirements for contractual rights. This standard resulted in additional disclosure in the financial statements (see note 15).

PS 3420 Inter-Entity Transactions, a new standard defining and establishing guidance on the accounting and disclosure requirements for inter-entity transactions. The Authority does not have any unallocated or nominal value inter-entity transactions as such this standard did not have a material impact on the financial statements. All inter-entity transactions are in the normal course of operations and are settled under normal trade terms.

The Calgary Convention Centre Authority
Notes to the financial statements
December 31, 2018

2. Significant accounting policies (continued)

Future Accounting Pronouncements

The following new accounting standards were issued by the Public Sector Accounting Board (PSAB). The Authority continues to assess the impacts of the standards.

Effective for fiscal years beginning on or after April 1, 2018

PS 3430 - Restructuring Transactions establishes how to record assets, liabilities, revenues, and expenses related to restructuring transactions as well as disclosure requirements for the recipient and transferor.

Effective for fiscal years beginning on or after April 1, 2021

PS 3250 Asset Retirement Obligations provides guidance on how to account for and report liabilities for retirement of tangible capital assets.

Effective for fiscal years beginning on or after April 1, 2022

PS 3400 Revenue provides guidance on the recognition of revenue that distinguishes between revenue that arises from transactions that include performance obligations and from transactions that do not have performance obligations.

3. Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and short-term GICs with original maturities of 90 days or less at the date of acquisition and are recorded at cost plus interest earned. The effective interest rate on the GICs held during the year was 1.77% (1.57% in 2017) per annum. As at December 31, 2018, the Authority held \$1,278,076 (\$1,888,670 at 2017) in short-term GICs and \$1,184,785 (\$1,160,627 in 2017) in long-term GICs (Note 5).

The Authority has an operating demand loan facility to a maximum of \$2,400,000. This facility is secured by GICs in the amount of \$2,400,000. The interest rate on the facility fluctuates with the Bank of Montreal's prime rate per annum. At December 31, 2018, the balance of the facility was \$nil (2017 - \$nil).

4. Major replacement reserve

The Authority records an annual appropriation for facility refurbishment and major renovations. The appropriation for the year totaled \$180,000 (\$180,000 in 2017).

	Notes	2018 \$	2017 \$
Balance, beginning of year		20,030	14,942
Increase in provision for the year		180,000	180,000
Major replacement expenditures	10	—	(174,912)
Balance, end of year		200,030	20,030

The Calgary Convention Centre Authority
Notes to the financial statements

December 31, 2018

5. Investments

Investments consist of GICs with a maturity date not greater than five years from December 31, 2018 bearing interest from 1.50% to 2.65% (1.10% to 2.00% in 2017) per annum. The fair value of the investments has been determined to be the principal plus interest earned to date.

	Cost	Accrued interest	2018 Fair value
	\$	\$	\$
Rate Riser Plus GIC 0037	597,500	45,915	643,415
Rate Riser Plus GIC 0038	506,250	35,120	541,370
	1,103,750	81,035	1,184,785

	Cost	Accrued interest	2017 Fair value
	\$	\$	\$
Rate Riser Plus GIC 0037	597,500	32,352	629,852
Rate Riser Plus GIC 0038	506,250	24,525	530,775
	1,103,750	56,877	1,160,627

6. Tangible capital assets

In accordance with PSAB Handbook Section 3150, The City has performed a review of the ownership and control of the land, building enhancements and equipment of the Centre. Accordingly, the Centre is recorded on the financial statements of The City. The Authority currently has an operating lease with The City, which was renewed on January 22, 2018 and is scheduled for renewal on January 22, 2021. The contract has a nominal fee, the cost of which has been recorded through operations and maintenance expense. Capital leases of \$427,115 are included in other equipment.

	Cost	Accumulated amortization	2018 Net book value
	\$	\$	\$
Renovations	6,827,559	6,827,559	—
Building enhancements	3,431,255	1,291,508	2,139,747
Computer equipment	735,159	506,711	228,448
Other equipment	6,201,166	2,651,572	3,549,594
	17,195,139	11,277,350	5,917,789

	Cost	Accumulated amortization	2017 Net book value
	\$	\$	\$
Renovations	6,827,559	6,637,411	190,148
Building enhancements	2,125,156	856,621	1,268,535
Computer equipment	522,743	406,082	116,661
Other equipment	5,143,454	2,073,631	3,069,823
	14,618,912	9,973,745	4,645,167

The Calgary Convention Centre Authority
Notes to the financial statements

December 31, 2018

7. Employee benefits

The Authority participates in the Local Authorities Pension Plan ("LAPP"), which is a multi-employer benefit plan. This plan is governed by the Public Sector Pension Plans Act. Based on the latest information available (December 31, 2017 audited financial statements), in total, the LAPP had an actuarial surplus of \$4.835 million (deficit of \$637 million in 2016).

The Authority is required to make current service contributions to the LAPP of 11.39% of pensionable payroll up to the yearly maximum pensionable earnings ("YMPE"), and 15.84% thereafter. Employees of the Authority are required to make current service contributions of 10.39% of pensionable salary up to the YMPE, and 14.84% thereafter. Contributions for current services are recorded as expenditures in the year in which they become due.

Total current service contributions, as reflected in the administrative and general, marketing and operations and maintenance expenses in the statement of revenue, expenses and operating reserve by the Authority to the LAPP during the year, were \$497,178 (\$592,119 in 2017). Total current service contributions by the employees of the Authority to the LAPP for the year were \$435,775 (\$544,579 in 2017).

8. Accounts payable and accrued liabilities

In accordance with the Meetings, Conventions and Incentive Travel ("MC&IT") marketing funding and management agreement (the "Agreement") between the Calgary Hotel Association and the Authority, the Calgary Hotel Association advances funds to the Authority to fund incentive payments for future events through Meetings & Conventions Calgary as well as to cover operating expenses incurred by the Authority. As at December 31, 2018, an amount of \$111,557 (\$221,472 at 2017) advanced by the Calgary Hotel Association is included in accounts payable and accrued liabilities as well as in cash and cash equivalents and investments to be used by the Authority in accordance with the Agreement as described above. Of the funds held, the amount held by the Authority for incentive funding is \$90,975 (\$182,094 in 2017) and the amount held by the Authority for future operating expenses is \$20,582 (\$39,378 in 2017).

During the year, the Authority disbursed from the incentive funds \$779,312 (\$753,714 in 2017) to events held in the city, returned \$0 (\$800,000 in 2017) to the Calgary Hotel Association and earned \$2,192 (\$9,312 in 2017) in interest on the funds held. The Authority has committed on behalf of the Calgary Hotel Association a total of \$2,413,037 (\$2,741,695 in 2017) for future events to be paid out over the years 2018 to 2025. Funding for the commitments that have been made on behalf of the Calgary Hotel Association for future events that are to be paid in 2019 until the November 1, 2019 termination date of the agreement will be funded on an as needed basis. Surplus funds, if any, will be returned to the Calgary Hotel Association.

9. Financial instruments

The Authority's financial instruments are cash and cash equivalents, accounts receivable, due from The City of Calgary - major replacement reserve, investments, accounts payable and accrued liabilities, and client deposits. The carrying values of these items approximate their fair values due to their short-term nature.

The Authority's financial instruments that are exposed to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. Cash is placed with major financial institutions. Concentration of credit risk with respect to receivables is limited due to the large number of customers and their dispersion across geographic areas.

The Calgary Convention Centre Authority
Notes to the financial statements

December 31, 2018

10. Major capital additions

During the year, the Authority incurred \$2,576,228 (\$3,176,650 in 2017) in expenditures for major capital additions, which have been capitalized as renovations, building enhancements and equipment. Of this amount, \$1,195,317 (\$1,665,022 in 2017) was funded by the Authority's operating reserve and \$0 (\$174,912 in 2017) was funded by the Authority's major replacement reserve. \$953,796 (\$1,336,716 in 2017) was applied for and funded through The City's CPRiIP (Culture Parks Recreation Infrastructure Investment Fund) Program for the capital additions made in 2018. \$427,115 (\$0 in 2017) was funded by capital lease (see Note 14)

11. 2018 Budget

The budgeted amounts presented in the financial statements are based on operating and capital budgets approved by the board of directors.

12. Calgary Convention Centre Authority responsibilities

The following cost sharing arrangements were considered in the PSAS memo, but were determined that these were not abnormal in relation to the financial position or usual business operations.

Glenbow Museum

Through an agreement with The City, the Authority provides maintenance, engineering, housekeeping and capital project supervision for the Glenbow Museum. Expenses of \$1,548,677 (\$1,289,330 in 2017) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee of \$87,000 (\$87,000 in 2017) totaling \$1,635,677 (\$1,375,980 in 2017) are included in operating revenue of the Authority. Capital projects supervised by the Authority totaled \$312,410 (\$7,880 in 2017) during the year.

Retail spaces, North Building

The Authority provides basic property management services for the retail spaces and parkade in the north building to the City of Calgary Reals Estate and Development Services and the Calgary Parking Authority respectively. Expenses of \$452,805 (\$418,271 in 2017) incurred in provision of these services are included in the expenses of the Authority. Recovery of the expenses plus a management fee \$490,771 (\$455,655 in 2017) are included in operating revenue of the Authority.

Meetings & Conventions Calgary

Through an agreement with the Calgary Hotel Association, the Authority provides management and operation of destination sales and marketing for MC&IT. Expenses of \$3,161,134 (\$2,904,914 in 2017) incurred in provision of these services are included in the expenses of the Authority. Funding to cover these expenses \$3,161,134 (\$2,904,914 in 2017) is reported net of expenses. Pursuant to the agreement, effective January 1, 2014 the Authority charges an administration/marketing fee for management and operation of the program. The fee of \$185,964 (\$185,964 in 2017) is included in the operating revenue of the Authority.

The agreement has been terminated effective November 1, 2019. Unused funds at the termination of the agreement will be returned to the Calgary Hotel Association.

Convention Centres of Canada

The Authority holds and administers the restricted funds of the Convention Centres of Canada, an affiliation of 21 major Canadian convention centres. As at December 31, 2018, an amount of \$97,626 (\$67,246 at 2017) is included in accounts payable and accrued liabilities as well as restricted cash. The funds will be transferred to and administered by the office of the executive director of the Convention Centres of Canada in 2019.

The Calgary Convention Centre Authority
Notes to the financial statements

December 31, 2018

12. Calgary Convention Centre Authority responsibilities (continued)

Energy Cities Alliance

The Authority holds and administers the restricted funds of the Energy Cities Alliance, a marketing partnership of convention centres. As at December 31, 2018, an amount of \$9,437 (\$9,689 at 2017) is included in accounts payable and accrued liabilities as well as restricted cash. The funds will be transferred to and administered by one of the other members of the marketing partnership in 2019.

13. Commitments

As of December 31, 2018, the Authority has commitments related to the lease of office equipment, furniture, housekeeping equipment, and communications equipment payable within the next three years as follows.

	\$
2019	320,173
2020	309,593
2021	300,837
2022	162,488
2023	69,227
	<u>1,162,318</u>

14. Capital lease obligations

As of December 31, 2018 the Authority has the following capital lease obligations.

	2018 \$	2017 \$
Obligation under capital lease for event furniture, monthly payment of \$7,063 with interest at a rate of 6.810%, maturing on April 30, 2022	277,665	—
Obligation under capital lease for event furniture, monthly payment of \$1,394, with interest at a rate of 6.889%, maturing on April 30, 2022	54,690	—
Obligation under capital lease for floor scrubber with interest at a rate of 6.990%, maturing on July 1, 2023	41,367	—
	<u>373,722</u>	—
Less current portion	88,800	—
	<u>284,922</u>	—

The Calgary Convention Centre Authority
Notes to the financial statements

December 31, 2018

14. Capital lease obligations (continued)

Future minimum lease payments, including principal and interest, under the capital leases for subsequent years are as follows.

	\$
2019	111,380
2020	111,380
2021	111,380
2022	82,300
2023	9,086
	<u>425,526</u>

The obligations under capital leases are secured by the underlying leased assets.

15. Contractual rights

Contractual rights are rights of the Authority to economic resources arising from contracts or agreements that will result in both assets and revenues in the future when the terms of those contract or agreements are met. As of December 31, 2018 the Authority has the following contractual rights.

Estimated amounts that will be received or receivable for each of the next five years and thereafter are as follows:

	Lease of Space or Equipment \$	Licensing payments \$	Total \$
2019	20,000	231,006	251,006
2020	20,000	171,774	191,774
2021	8,333	171,774	180,107
2022	—	171,774	171,774
2023	—	99,194	99,194
Thereafter	—	800,000	800,000
	<u>48,333</u>	<u>1,645,522</u>	<u>1,693,855</u>

Calgary Arts Development Authority Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0624

Calgary Arts Development Authority Audit Committee Annual Report

EXECUTIVE SUMMARY

This is Calgary Arts Development Authority's annual report and risk management report to the Audit Committee

CALGARY ARTS DEVELOPMENT AUTHORITY RECOMMENDATION:

That the Audit Committee receive the presentation with respect to Report AC2019-0624 for the Corporate Record.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw states that Audit Committee is responsible for:

“overseeing its governance responsibility with audit committees of the City's major autonomous civic entities.”

Section 4(1)(i)

BACKGROUND

A letter dated 2019 May 6 was provided to the President and Chief Executive Officer of the Calgary Arts Development Authority from the City of Calgary Audit Committee Chair requesting a report and presentation on its 2018 Annual Report, risk management processes and the Audit and Finance Committee terms of reference.

1. The letter outlined the items to be provided in their annual report to The City's Audit Committee, as follows:
2. Brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy;
3. Report on the organization's key operating and strategic risks including trends and risk management plans and processes;
4. Analysis of the top three financial and/or operational risks that in our opinion would impact the City of Calgary and be of concern to the City's Audit Committee;
5. Report on internal controls including information technology and systems;
6. Most recent management letter including management responses as appropriate; and
7. Audit Committee 2019 Work Plan.

As requested in the letter, presenters of the report will be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?
2. What is the current composition of the Audit Committee and what is their relevant financial experience?
3. Have there been any significant changes to organizational leadership?
4. Are there any regulatory or market changes that may impact the current business approach and would they be relevant to share publicly with the Audit Committee?

Calgary Arts Development Authority Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0624

Calgary Arts Development Authority Audit Committee Annual Report

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?
6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

INVESTIGATION: ALTERNATIVES AND ANALYSIS

This report responds to the City Audit Committee's reporting requirements of the CADA Board.

In 2005, the City's Audit Committee initiated a review of the City's governance structures pertaining to its main subsidiary organizations, and autonomous civic entities that represent significant assets to the City of Calgary and/or have significant operating budgets.

This annual report from the CADA board is the third to be made to the Audit Committee in accordance with the changes that were implemented as a part of the governance review. The CADA board anticipates that this presentation will be part of an annual opportunity for an ongoing dialogue with the Audit Committee concerning CADA's governance structure and risk management protocols.

The Attachments address the questions posed by the Audit Committee to CADA.

Stakeholder Engagement, Research and Communication

Regular shareholder engagement over and above our AGM includes annual civic partners reporting to CSPA, annual one-on-one meetings with councillors, annual audit committee presentation and working continuously with administration on a number of files.

We also undertake research and analysis on data we collect via our grant investment clients, survey tools and other engagement methods that assist us in developing vigorous evaluation methods and evidence-based decision making.

Strategic Alignment

Our strategic planning is supported by a robust and regular cycle of community and partner engagement to ensure alignment to our civic partner and City strategies and policies. In preparation for the next four-year budget cycle 2019-2022 we prepared a renewed four-year strategic framework. Our strategic priorities were prepared in alignment with *One Calgary* and overarching civic policies including: the *Civic Arts Policy*, *imagineCalgary*, *Cultural Plan*, *Recreation Master Plan* and *Centre City Plan*.

Social, Environmental, Economic (External)

Financial Capacity

Current and Future Operating Budget:

Our 2019 budget is approximately \$12.1M

Calgary Arts Development Authority Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0624

Calgary Arts Development Authority Audit Committee Annual Report

Current and Future Capital Budget:

Not applicable.

Risk Assessment

In the first year of our new four-year strategic framework we continue to monitor and update the operating and strategic risks Calgary Arts Development faces.

- A quarterly compliance certificate is prepared confirming our legal commitments as well as raising any risk factors that may have arisen. The certificate is shared with our finance and audit committee as well as our entire board. Our most recent certificate is attached.
- Formal board policies that ensure authority and risk mitigation concerning financial and legal accountabilities are shared. Further, our terms of reference for the finance and audit committee call for it to serve as a first layer of risk monitoring prior to each board meeting.
- Our annual audit process has a specific section that addresses any fraud or risk factors that may have come to the attention of our auditors. Subsequently the finance and audit committee meets with the auditors (in camera and with CADA management) to discuss further and provides a comprehensive report on all audit factors accordingly.

REASON(S) FOR RECOMMENDATION(S):

The City of Calgary Audit Committee oversees its governance responsibility with audit committees of The City's major autonomous civic entities and an annual report is requested each year.

ATTACHMENT(S)

1. Attachment 1 – Calgary Arts Development Authority – Audit Governance Status Report
2. Attachment 2 – KPMG Report to the Calgary Arts Development Authority Board of Directors for the year ended December 31, 2018
3. Attachment 3 – 2018 Finance and Audit Committee Terms of Reference
4. Attachment 4 – Finance & Audit Committee 2019 Work Plan

Calgary Arts Development Authority
Audit Governance Status
July 23, 2019

1. A brief summary on governance structure, succession planning and recruitment process, recent financial highlights and key 2019 initiatives/strategy

Calgary Arts Development strives to increase and use our resources wisely, foster collaborative relationships and make the arts integral to the lives of Calgarians.

Our Vision: *A creative, connected Calgary through the arts.*

Our Mission: *Calgary Arts Development supports and strengthens the arts to benefit all Calgarians.*

As the city's designated arts development authority, Calgary Arts Development Authority (CADA) supports and strengthens the arts to benefit all Calgarians. We invest and allocate municipal funding for the arts provided by The City of Calgary and leverage these funds to provide additional resources to the arts sector. Our programs support hundreds of arts organizations, individual artists, artist collectives and collaboratives in Calgary.

We are a connector, facilitator, collaborator, champion, supporter, amplifier, investor, catalyst and opportunity-maker.

Governance Structure

Calgary Arts Development Authority Ltd. (CADA) is a wholly owned subsidiary of the City of Calgary and was incorporated in 2005 under Section 6 of the Business Corporations Act. Our creation was the next iteration of over 50 years of civic investment in the arts via a volunteer run entity called the Calgary Region Arts Foundation. In 2004, the City of Calgary created a Civic Arts Policy which called for a new organization to be developed to continue to provide grant investment programs for the arts in Calgary and prepare a strategic direction overall. Since our inception, our organization is guided by the following governance statutes, policies, and agreements:

- Articles of incorporation – Within the articles, CADA's business is restricted to: "The Corporation may carry on any and all such business activities as may directly or indirectly contribute to, foster, or promote the development of arts and culture in Calgary". CADA's business is restricted from: "The Corporation shall not operate for the purpose of making a profit in accordance with the restrictions of the Municipal Government Act M-26 RSA2000". The Articles of Incorporation also specify a minimum number of three board members and a maximum number of 15.
- Unanimous Shareholders Agreement (USA) with the City of Calgary who is the sole shareholder of CADA and is represented by the Mayor and members of City Council, outlines the authority given to the board of directors of CADA in managing the business and affairs of the organization pursuant to the Business Corporations Act, R.S.A. 2000, Chapter B-9, as amended.
- Calgary Arts Development Authority Bylaws and the Calgary Arts Development Authority Governance Policy Manual (reviewed on an annual basis and last updated in November 2016) provide the governing principles and policies upon which the CADA board operates.

- City of Calgary Civic Arts Policy 2004 (scheduled for update 2019), - The current policy is credited with the creation of Calgary Arts Development and is foundational to how the City and CADA work together to achieve outcomes for the City and ultimately for the benefit of Calgarians. CADA is working with City administration on a policy review and any relevant updates as they apply to CADA's work.
- City of Calgary Cultural Plan (adopted by City Council Fall 2016) – The Cultural Plan offers a framework and strategy that CADA's strategic framework takes into account, and aligns to demonstrating where our aligned impact exists. We look forward to continuing our work with City administration to implement elements of the Cultural Plan through our work.
- City of Calgary Investments in Partnerships Policy (updated 2016)

Calgary Arts Development is governed by a board of directors (current size 10), appointed by and directly accountable to its shareholder, The City of Calgary, via City Council. The board of directors governs lawfully, observing the principles of the policy governance model, with an emphasis on strategic leadership and clear distinction of board and CEO roles. The board also identifies the principal risks of Calgary Arts Development's business, achieves a proper balance between risks incurred and potential returns, and oversees the development of policies and the implementation of appropriate systems to manage risk.

In 2018, there were seven regular board meetings and a two-day retreat with an attendance record of 78%.

CADA's board of directors carries out its responsibilities using the following core committee structure.

Finance and Audit - the purpose of the finance and audit Committee (FAC) is to assist the board in fulfilling its oversight responsibilities by reviewing and making recommendations to the board regarding: financial information, including audited financial statements, that will be provided to the board of directors and other stakeholders, the systems of internal controls, internal audit processes, and investment management activities.

Governance and Human Resources - the governance and human resources committee (GHRC) has three areas of responsibility: governance matters, including management of the relationships between the board and the CEO and between Calgary Arts Development and the shareholder, all as defined in the policy manual approved by the board May 20, 2009 and updated in November 2016, human resources policy development and oversight, including review of CEO hiring, performance evaluation, compensation, development, and termination, and board recruitment, development, and evaluation.

Strategy and Public Policy - the strategy and public policy committee's (SPPC) mandate includes: considering and making recommendations to the board of directors on matters affecting strategy and public policy within Calgary Arts Development's mandate, providing guidance and evaluation to the board of directors for the development and evaluation of Calgary Arts Development's alignment with our mission and vision, and facilitating the strategic planning process in coordination with the board.

The Board elects a chair and treasurer annually. All members of the board sit on at least one of the three core committees.

The members of the 2018 CADA Board were as follows:

Chair: Dean Prodan

Treasurer: Tim Mah, CA

Members: Jeff de Boer, Donna Friesen (Chair, Strategy and Public Policy Committee), Rob Harding, Barb Howard, Stacey Petriuk, Susan Veres, Katherine Wagner (Chair, Governance and HR Committee), Cllr. Evan Woolley

Succession Planning and Recruitment Process

Members of the CADA board are appointed for two- or three-year terms with the maximum service length on the board set at six years. Through the GHRC, due diligence is undertaken to review all existing members as well as any possible candidates for consideration; many of whom are drawn from other volunteer pools with CADA and the arts community (e.g. grant investment assessors for CADA, past board members with other arts boards). A skills matrix has been developed and is also used by GHRC as a tool to ensure that the appropriate expertise and skills are present within the board membership. An annual board evaluation survey is also distributed and results are shared with the entire board for consideration and information.

On the staff side, the team comprises 15.3 FTE fulfilled by 12 staff and three to five independent contractors. In 2018, we recruited for a successor to one of our leadership team roles—Director, Community Investment & Impact. The process took longer than originally expected as we reviewed our hiring process through an equity lens to ensure the best range of candidates. With an executive leadership team of three, we are comfortable that we have sufficient senior level expertise in place to facilitate any transitions that may occur. With a small team we are not one that can easily facilitate internal succession, but we do try to recruit new staff with this in mind to ensure that we have overlapping of duties so that transition of one person doesn't lose the entire job duty history. Further we focus on professional development opportunities for all staff as a means of staff retention and ensuring current skill and expertise levels, and this approach has served us well.

Financial Highlights

KPMG provided an unqualified audit opinion and reported that there were no significant financial reporting risks identified during the audit planning and subsequent audit process.

In line with the 2004 Calgary Civic Arts Policy, Calgary Arts Development is the single arm's-length arts authority referenced and is responsible for "All municipal funding to external arts organizations will go to a single arm's-length arts authority, which will have the final decision on all arts-related funding matters. City Council will refer all arts-related capital and operational funding inquiries to the arm's-length arts authority. "

Calgary Arts Development invests a minimum of 75% of the dollars received from The City of Calgary directly into the arts sector via grant investment programs, with the remaining 17% being used to strengthen the arts sector through arts development activities and 8% for administration.

Calgary Arts Development's approach to investment is broad, including direct monetary support through grant investments as well as fostering long-term resilience through capacity building in

the arts sector. We ran the following investment programs in 2018: Remarkable Experience Accelerator, Organization Operating Grant Investment program, Organizational Opportunity Grant Program, Project Grant Program, artsVest Alberta (in partnership with the Alberta Foundation for the Arts and Business for the Arts), and ArtShare. We also undertook initial community consultation for the creation of a grant investment program specifically to support First Nations, Métis and Inuit art to be launched in 2019.

In total, Calgary Arts Development invested \$5,138,755 through these programs in 2018, a 4% increase over 2017.

Key 2019 Initiatives/Strategies

The four-year framework 2019-2022 and ensuing 2019 work plan have incorporated our successes and learnings from 2015-2018 and were foundational to our budget case to The City which resulted in a transformational increase for the benefit of Calgarians and the arts sector.

Major themes guiding our work in 2019 include:

- Addressing the stewardship and investment of our budget that includes a base budget increase of \$6M as the main driving force of our work in 2019. A strong focus on our first priority area—fostering a sustainable and resilient arts sector—will have an effect on the arts sector’s city-building possibilities. The increase will support growth and evaluation in our grant investment programs, greater outreach into the community, and increased communications activity.
- Equity, Diversity and Inclusion (EDI) –a core value at Calgary Arts Development that is embedded into all of our work.
- Building stronger relationships:
 - Relationship with City of Calgary – continue to foster excellent relationships and regular communication to best support each other’s work.
 - Relationships with other civic partners—continue to strengthen relationships to support the strategies of other civic partners including Calgary Economic Development, Tourism Calgary, the Calgary Convention Centre, Arts Commons, and more.
 - Relationships with the arts sector—focus more on relational rather than transactional interactions with all grant investees and the sector overall whom we are mandated to support and encourage.
 - Relationships with educators—continue to develop meaningful relationships with Calgary Board of Education, Calgary Catholic School Board, U of C, MRU, AUArts, SAIT, Bow Valley College and more.
- Cultural Plan and new Civic Arts Policy—continue to work with City administration to position the arts as integral to Calgarians’ lives, Calgary’s identity, and future sustainability. Continue to promote the arts as important city-builders.
- Understanding and building on our actions regarding Truth and Reconciliation, and aligning with the White Goose Flying report, and Calgary’s Indigenous policy framework.
- Board changes—three board members will complete their terms in 2019, creating a need for recruitment and onboarding of new members.
- New staff at Calgary Arts Development – there is a new Director, Community Investment & Impact, as well as new staff in both Community Investment and Communications—onboarding these individuals in support of increased activity, program evaluation, and outreach.

- Support signature events such as the Canadian Country Music Awards, the Grey Cup, and XGames; ensuring that Calgary arts and artists are included.

2. Report on CADA's key operating and strategic risks including trends and risk management plans and processes

In the first year of our new four-year strategic framework we continue to monitor and update the operating and strategic risks Calgary Arts Development faces.

- A quarterly compliance certificate is prepared confirming our legal commitments as well as raising any risk factors that may have arisen. The certificate is shared with our finance and audit committee as well as our entire board. Our most recent certificate is attached.
- Formal board policies that ensure authority and risk mitigation concerning financial and legal accountabilities are shared. Further, our terms of reference for the finance and audit committee call for it to serve as a first layer of risk monitoring prior to each board meeting.
- Our annual audit process has a specific section that addresses any fraud or risk factors that may have come to the attention of our auditors. Subsequently the finance and audit committee meets with the auditors (in camera and with CADA management) to discuss further and provides a comprehensive report on all audit factors accordingly.

3. Analysis of top three financial and/or operational risks that in your opinion would impact the City of Calgary and be of concern to the City's Audit Committee

With respect to specific risks we face, they remain as the audit committee has seen in the past:

1. Financial Risk. Financially, we are almost entirely dependent on one source of revenue. In the most recent economic climate, leveraging our single source of funding from other sources without competing with the very arts organizations we are here to serve has been challenging; and the well-being and vibrancy of our arts sector has been at risk. And, through our grant investment and arts development activity, we strive to address the risk. We successfully demonstrated, through an evidence-based case, the need for increased investment from The City in 2018. While the increase was not the full amount of the request, it does alleviate some financial constraints within the sector. The increase in funding helps raise the support to our grant investees closer to par with their peers across Canada and lessen the stranglehold. Thankfully, all levels of governments increased their investments in the arts in 2018 and we are thankful for the City showing a vote of confidence in the arts for Calgary. We are very encouraged that City Council has recognized the impact and risk that the most recent economic downturn posed for the arts sector and provided select one-time emergency resiliency and Cornerstone bridge funds and we have seen signs of its effect for the sector and the citizens they serve.
2. HR Risk. From a governance perspective, because we want a board that's highly engaged we have purposely kept it small. Having a small board increases the risk of having a higher percentage of new people at once when we have transitions. There are three board members changing in 2019 so we undertook a process of recruiting potential candidates to manage the transitions carefully and allow for crossover.

In terms of talent management, we have a small and specialized staff, with the addition of outsourcing and juries when needed. We intentionally keep our administration as small as possible in order to ensure the majority of our funds are funneled into the community through grant investment programs. Having a small team means that the separation of duties is hard – everyone needs to be able to double up. We have accepted the risk of non-segregated duties within our community investment team in order to ensure efficiency. In 2018 we also lost one of our three-person leadership team, and undertook an extensive four-month search process, during which that role was vacant.

3. Reputational Risk. For Calgary Arts Development – the more people know us, the more they believe we have influence and the more they start to connect Calgary Arts Development with all things to do with the arts. This can create confusion when it comes to things like public art, for example, or specific arts programming of one of our grant investees. For the City – the public isn't always aware of the investment by The City or how much is done with a small investment – how a little goes a long way with a big return. The risk is that there isn't actually enough investment to create a strong arts sector. This puts our city's reputation as a creative, innovative, vibrant city—an attractive city to live in—at risk, which is already challenged by local and national perception, which has been exacerbated by the economic downturn.

4. Report on the internal controls including information technology and systems

CADA has an internal control framework that is fit for purpose, given the size of the organization.

We have a number of operational policies in place that govern our internal processes and procedures with regard to finance, governance and operations. They are as follows:

Finance:

Credit and Limits Policy (updated in 2017) establishes the terms and conditions as they relate to: credit instruments, accounts payable, accounts receivable, signing authorities (dual signature >\$500) and purchase limits

Governance:

Board Policy Governance Manual (reviewed annually and last updated November 2016,) is reviewed by the governance and HR committee and provides all of the base board policies and terms of reference for proper governance and stewardship of the organization.

Compliance Certificate (provided on a quarterly basis at every board meeting) is provided by the CEO and ensures compliance in a timely manner with month end procedures, quarter end procedures, annual procedures and timely remittance of all CRA deductions and fees.

Operations:

Employment Policy Manual (reviewed annually and last updated January 2018) governs all internal human resource, operational and administrative matters as they pertain to our staff.

Next Digital IT Controls Summary – We have a firm who provides IT services to CADA. They have prepared answers to a questionnaire sent to us by the City of Calgary IT Division. Next Digital also

provides an annual risk profile with recommendations. They have advised that in addition to the information provided on the form, further updates for backup offsite rotation, an updated password policy and a revised Domain and SSL protocol are required. We are now fully operational on a new server installed in 2017 and a workstation evergreen process. In 2019 we will be working to strengthen our cybersecurity and formalize a protocol.

In addition, CADA was advised to be prepared to answer the following questions:

1. What is the frequency of review and are there any recent changes to the Audit Committee Charter or Terms of Reference?

Each of the three core committees has an annual work plan that they review and follow to inform their work. The finance and audit committee terms of reference was updated in 2016 to ensure consistency in wording across all committees. No changes were made to the mandate of the committee. The finance and audit committee meets prior to every quarterly board meeting and in 2018 met on the following dates:

Date	Core Activities
February 27, 2018	Review 2017 draft financial statements and 2016 to 2017 variance reports; 2017 audit wrap-up with KPMG; review and revise finance and audit committee terms of reference
April 17, 2018	Review final 2017 audited financial statements; review 2018 Q1 financial statements, variance report, and 2018 projections;
September 25, 2018	Review 2018 Q2 financial statements, variance report, 2018 projections; review 2019 draft budget & priorities;
November 29, 2018	Review 2018 Q3 financial statements, variance report, 2018 projections; FYE 2018 audit planning report with KPMG; review 2019 budget draft
December 5, 2018	Review and recommend 2019 budget to the board (we required an additional meeting due to a new development with our budget request to City Council in November 2018)

2. What is the current composition of the Audit Committee and what is their relevant financial experience?

In 2018, the finance and audit committee consisted of three members plus the board chair (ex officio).

Tim Mah, CA: committee chair; board member since 2013

Tim Mah is a chartered accountant with over 25 years of experience, developed in the energy, public accounting and non-profit sectors. His expertise includes financial reporting and accounting, budgeting, strategic planning, and governance. He held various senior management positions at a large, Calgary-based, public energy company. His volunteer experience included 10 years as a board member and treasurer with Calgary's Decidedly Jazz Danceworks. He holds a Bachelor of Commerce degree, with distinction, from the University of Alberta.

Robert Harding, CPA, CMA: committee member since 2015; board member since 2017
CFO, Climate Smart Group and Carbon Credit Solutions Inc.

Rob works with a broad range of industries, providing senior level support and input on strategy development/re-alignment, operations optimization, systems analysis and implementation, financings and public listings. Prior to this, he held progressively senior roles in oil and gas, engineering, procurement and construction and transportation companies including an extensive tenure with Athabasca Oil Corporation, three years with a Middle East LNG firm and 18 months with a resource company in the Caribbean. These international roles allowed Rob to demonstrate his skills while operating with different cultures and business practices.

Rob obtained the CPA, CMA accounting designation in 1996, an MBA from the University of Manchester (UK) in 2006 and the ICD.D from the Institute of Corporate Directors in 2014. He serves on the board of New Global Acreage Resources, the Registration Committee of the Chartered Professional Accountants of Alberta, the Finance and Audit Committee of Calgary Arts Development and the Program Advisory Council – Business for SAIT Polytechnic. Mr. Harding is also a volunteer with Junior Achievement of Southern Alberta and was previously a member of the board and the Audit and Risk Committee of CMA Alberta.

Caitlyn Ducasse, CPA: committee member since 2018
VP Finance at PK Sound

Caitlyn is a Certified Professional Accountant with over 10 years of accounting experience specializing in internal controls, financial modeling and strategic planning. After graduating from the Honours Bachelor of Business Administration program at Wilfrid Laurier University, Caitlyn articulated in Toronto before moving back home to Alberta. Since returning, Caitlyn has immersed herself in Calgary's vibrant arts and music scene by volunteering her accounting knowledge throughout the community. She is currently pursuing her MBA at Calgary's Haskayne School of Business with a focus on innovation.

Dean Prodan (ex officio): board member since 2013
CFO and Director of Whitehorn Resources Ltd., Portfolio Manager for Priviti Capital Corp. and Director of Whitewater Ski Resort

Dean Prodan is most recently employed as President and sole owner of UTA Asset Management. Previous employment from 1989 to 2009 consists of four years as an Institutional Salesman for Peters & Co. Ltd., five years as Managing Director and co-founder of FirstEnergy Capital Corp., four years as President and Portfolio Manager of Dominion Equity Resource Fund and Managing Director of Canfund VE Management Corp.

He has current board positions on several private companies including Chair of the Board for Markwater Handling Systems and Cool It Systems Inc., Director of Canadian Energy Acquisition Corp. Also active on the Advisory Board of Priviti Capital Corp. Other board and volunteer activities in the not-for-profit sector Dean is involved with include Director of The Palix Foundation, member of the Investment Committee for the Max Bell Foundation, Board member for the Calgary Stampede Foundation and a member of the Regional Board of the Nature Conservancy of Canada.

3. Have there been any significant changes to organizational leadership?

In January of 2019, a new Director of Community Investment and Impact was appointed. Sara Bateman has a deep background in community investment and evaluation; most recently having been with the Suncor Energy Foundation and serving as a consultant in the area of social innovation. Our President & CEO completed her fifth year at the end of summer 2018 and the board has renewed her contract for four more years.

4. Are there any regulatory or market changes that may impact the current business approach and would be relevant to share publicly with the Audit Committee?

There are no regulatory changes underway that will materially impact CADA's current business approach.

In late November of 2018, City Council approved a transformational increase to Calgary Arts Development's budget, which will help build a more sustainable, resilient arts sector, and contribute to a more vibrant, connected, and prosperous city for all Calgarians.

The increase to our budget is the most significant show of confidence from City Hall that the sector has seen in regard to how meaningful a role the arts sector plays in the economic and social development of our city.

As the city recovers from the recent downturn, this transformational investment into Calgary's arts sector provides opportunities for further recovery for arts companies, to adapt to new business models AND assist Calgary in becoming a more innovative city, with an exceptional quality of life, a diversified economy, and shared prosperity for all. The creative economy is one of the fastest growing economies in the world, and the development of a formalized Creative Industries strategy for Calgary is also enabled thanks to this important investment.

Our colleagues with the arts and culture division are part of the recreation department at The City of Calgary and while Calgary Arts Development is a separate entity from The City, our aspirations align with our colleagues and the overarching civic policies within the City such as *imagineCalgary*, *the Civic Arts Policy*, *Cultural Plan*, *Recreation Master Plan*, and *Centre City Plan*. The arts sector adds to a community's vibrancy and sense of place by creating opportunities for active and creative expression, social gatherings, cultural events, and community festivals that generate social connections, cultural vibrancy, and a greater sense of belonging.

The *Recreation Master Plan* states the following: "The National Recreation Statement, published by the federal/provincial/territorial Ministers responsible for sport, physical activity and recreation, **acknowledges recreation as a fundamental human need and a social service in much the same manner as health and education**. This is significant, and indicates that the focus of service provision should have a broad community scope... Calgarians believe the provision of a variety of accessible and affordable recreation opportunities is a fundamental responsibility of The City of Calgary, and that such services are vital to overall individual and community wellness." This statement reinforces our citizens' shared belief in public funding for arts and culture—a public good—which was endorsed by an increase to the municipal investment in the arts approved by City Council in November 2018.

As an organization that stewards public dollars for the public good, we believe in the power of the arts to bring people together, to celebrate and reflect who we are as humans, and to manifest people's innate creativity. Calgary's arts development strategy *Living a Creative Life* envisions a city that empowers every resident to live a creative life, fueling a vital, prosperous, and connected city. We also believe the arts are a pathway for inclusion and that the arts can model what an inclusive society could look like.

5. Are there any results of any regulatory or internal/external business assessments that provide assurance on the effective management of risks as addressed in your presentation?

We did not undertake any external/internal business assessments in 2018 to report on.

6. What initiatives are currently in progress to improve the efficiency of your processes? (e.g. sustainable operations, key performance indicators and relevance of the organization in the future)

There are a number of ways in which CADA monitors its performance and relevance in fulfilling our mandate:

- We have a series of KPIs that we monitor and report to our board on a quarterly basis. We also undertake research and analysis on data we collect via our grant investment clients, survey tools and other engagement methods that assist us in developing robust evaluation methods and evidence-based decision making.
- On the staff side we hold annual performance reviews and accountability framework updates with all staff. We also undertake annual professional development for all employees, which will be more formalized to focus on equity, diversity and inclusion in 2019.
- Our strategic planning is supported by a robust and regular cycle of community and partner engagement to ensure alignment to our civic partner and City strategies and policies. In preparation for the next four-year budget cycle 2019-2022 we prepared a renewed four-year strategic framework.
- Regular shareholder engagement over and above our AGM includes annual civic partners reporting to CSPA, annual one-on-one meetings with councillors, annual audit committee presentation and working continuously with administration on a number of files.
- Ethical guidelines – Board and staff are subject to a code of conduct policy as well as annually signing off on our conflict of interest policy. In 2018 board of directors approved a whistleblower policy and in 2019 staff is leading efforts to develop an equity policy which the board will then use to flesh out our board matrix in order to include diversity measures.
- Governance oversight includes board evaluation, board term limits and renewal mechanisms.
- Board succession – in 2019 the board has secured the services of Alto Partners to undertake a board recruitment process to address board appointments for 2019 and 2020.

In 2011, City Council authorized the board of directors of CADA to incorporate a non-profit subsidiary corporation under Part 9 of the Companies Act (Alberta) to strategically address the long-standing need for affordable incubator spaces that support artists and cultural non-profit organizations. cSPACE Projects was formed “exclusively to promote, coordinate and facilitate real estate projects that establish affordable facilities, accommodations and education opportunities for artists and registered non-profit organizations operating in the arts or community sector.”

The cSPACE board of directors is directly accountable to two shareholders, CADA and the Calgary Foundation who maintain an arms-length relationship with the entity. cSPACE's *Memorandum of Association* and *Articles of Incorporation* define the parameters of their accountability to their shareholders and are further refined in the *Shareholder's Agreement* between cSPACE, CADA and the Calgary Foundation. Both shareholders are in contact with cSPACE for regular updates and we were both thrilled to take part in the grand opening of their first project **cSPACE King Edward** on September 29, 2017. The facility is fully tenanted, with a waiting list, and in a short time has become a treasured hub in South Calgary.

Calgary Arts Foundation

One of the strategic priorities in the Calgary Arts Development 2015-2018 strategic plan was to increase resources to the arts sector. Although we found some ways to increase resources through partnerships and sponsorships, 93% of our funding in 2018 came from one source—The City of Calgary. We believe there are businesses, foundations and individuals who may wish to donate to or invest in the non-profit arts sector as a whole as opposed to selecting a specific organization but most people do not want to support a subsidiary of government. Modelled after a charitable foundation set up over 20 years ago by our counterparts in Toronto—the Toronto Arts Council—when they created the Toronto Arts Foundation, a small group of community members constituted the founding board of the Calgary Arts Foundation. The Calgary Arts Foundation has been set up as a Trust and received charitable status at the beginning of 2018. It is a completely separate entity from Calgary Arts Development but will work in concert with CADA to determine needs and gaps in the arts sector and to leverage The City's investment to CADA through fundraising and other development campaigns to support the arts sector as a whole. The Calgary Arts Foundation will also share some board members, staff members, and resources with Calgary Arts Development. The foundation is currently inactive but will begin planning start-up activities in 2019.

Calgary Arts Development Authority Ltd.
2018 Audit Findings Summary
Prepared by KPMG with regards to the audit of the financial
statements as at and for the year ended December 31, 2018

Audit scope

Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter dated November 26, 2018.

Independence

- Professional standards require that we communicate our independence on an annual basis. We confirm that we are independent with respect to Calgary Arts Development Authority Ltd. within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation.

To the date of this report we have not performed any advisory or other services that would threaten our independence.

Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements;
- For the current year, materiality of \$ 200,000 (2017 - \$ 294,000) and an audit misstatement posting threshold of \$10,000 (2017 - \$14,700) have been determined.

Annual inquiries related to risks of fraud

Professional standards require that we ask you questions in connection with your oversight of management's process for identifying and responding to the risks of fraud:

- What are your views about fraud risks in Calgary Arts Development Authority Ltd.?
- How do you provide effective oversight of programs and controls to prevent, detect and deter fraud, including oversight of internal controls management has established to mitigate fraud risks?
- Are you aware of, or have you identified any instances of, actual, suspected or alleged fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?

Specific topics

- Significant risks:
 - Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all entities.
 - The risk of fraudulent revenue recognition can be rebutted, and we have done so. However the risk of management override of control cannot be rebutted, since management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

No issues were noted

- We enquired with no issues noted with regards to related party transactions, subsequent events, commitments and contingencies, fraud, non-compliance with rules and regulations, lawsuits or completeness of liabilities.
- We did not identify, during our financial statement audit, any illegal acts or possibly illegal acts.
- We did not identify, during our financial statement audit, any:
 - matters that pose questions regarding the honesty and integrity of management;
 - fraud or suspected fraud involving employees who have significant roles in internal control over financial reporting;
 - fraud or suspected fraud (whether caused by management or other employees) that results, or may result, in a non-trivial misstatement of the financial statements; and
 - matters that may cause future financial statements to be materially misstated.
- We received the full cooperation of management and employees of Calgary Arts Development Authority Ltd. and, to our knowledge, had complete access to the accounting records and other documents that we needed in order to carry out our audit.

Summary of audit differences

- We noted one uncorrected misstatement in current year relating to the incorrect treatment of a leasehold inducement to increase income and decrease liability to actual year-end values in the amount of \$3,416.

Performance improvement observations

- We perform a substantive audit, which means we do not place reliance on controls to reduce our level of audit work. With that, as we become of opportunities for improvements in financial, accounting or operational processes during our audit, we communicate those with management. During the course of our audit, we become aware of such opportunities and have discussed them with management and provided our recommendations for performance improvement. None were considered significant control deficiencies.

Calgary Arts Development Board Policy Manual

11. Committee Terms of Reference: Finance and Audit

Mandate

The purpose of the Finance & Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing and making recommendations to the Board regarding:

- financial information, including audited financial statements, that will be provided to the Board of Directors and other stakeholders
- the systems of internal controls
- internal audit processes
- investment management activities

Responsibilities

1. Advising the Board on all financial matters affecting CADA.
2. On an annual basis, recommending auditors for appointment.
3. Reviewing scope of the audit and approving the audit fees involved.
4. Acting as the Board's liaison with auditors.
5. Receiving and reviewing the audited financial statements of CADA as to reasonableness of presentation, appropriateness of accounting principles and adequacy of disclosure prior to their submission to the Board.
6. Receiving and reviewing the written annual report of the auditor.
7. Reviewing the objectives and effectiveness of the internal audit function, including working relationships with the auditors and the administration.
8. Monitoring compliance of financial policies.
9. Advising the Board on specific matters relating to financial exigencies.
10. Reviewing on behalf of the Board all contracts, agreements or other instruments involving the financial affairs of CADA and which are to be presented to the Board and to make recommendations to the Board regarding appropriate action.
11. Ensuring that CADA has an effective process in place that provides appropriate alignment of financial resources with strategic directions.

Calgary Arts Development Board Policy Manual

Membership

At least three (3) members, of which two (2) are members of the Board of Directors, including the Treasurer, and the CEO as a Committee resource. The total number of committee members must always be an odd number. The Board Chair will be an ex-officio (non-voting) member of the committee.

Chair

The Finance and Audit Committee is chaired by the treasurer.

Meetings

The Finance and Audit Committee will meet regularly to review progress and identify emerging priorities. The Finance and Audit Committee will meet as needed to meet project-related deadlines, and in order to make recommendations to be forwarded for adoption by the Board of Directors. The meeting schedule should be determined by the Committee Chair upon appointment.

Lines of Accountability/Communication

The Finance and Audit Committee is accountable to the Board.

1. The Chair of the Finance and Audit Committee reports on its activities to the Board, and submits written recommendations as required for the Board's consideration.
2. The Finance and Audit Committee's written reports and recommended positions are to be held confidential, and are to be made public only after approval by the Board.
3. Management will work closely with the Finance and Audit Committee as necessary to advance the work of the Committee.

(Edited March 2016)

**Calgary Arts Development
 Finance & Audit Committee
 Annual Work Plan 2019**

Date	Core Activities
Early Winter 2019	<ul style="list-style-type: none"> • Review 2018 draft financial statements and 2017 to 2018 variance reports • 2018 audit wrap-up with KPMG • review and revise finance and audit committee terms of reference • Review ongoing committee actions list
Spring 2019	<ul style="list-style-type: none"> • Review final 2018 audited financial statements; • review 2019 Q1 financial statements, variance report, and 2019 projections • Review ongoing committee actions list
Early Fall 2019	<ul style="list-style-type: none"> • Review 2019 Q2 financial statements, variance report, 2019 projections • Review 2020 draft budget & priorities • Risk assessment review • Annual Review Calgary Arts Development Financial policies and procedures • Review ongoing committee actions list
December 2019	<ul style="list-style-type: none"> • Review 2019 Q3 financial statements, variance report, 2019 projections • FYE 2019 audit planning report with KPMG • Review and recommend 2020 budget to the Board • Review ongoing committee actions list

Chief Financial Officer's Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0945

Annual Update – Information Technology Risk Management

EXECUTIVE SUMMARY

Each year, Information Technology (IT) provides an annual report on the technology-related risks within The City and the measures being taken to mitigate their likelihood and/or impact. IT reviews and manages risks to ensure that systems supporting all City services remain functional, secure, and resilient. A detailed description of each IT risk and associated mitigation techniques can be found in Attachment 1.

ADMINISTRATION RECOMMENDATION:

That Audit Committee:

1. Receive this report for information; and
2. Keep Attachment 1 confidential pursuant to Sections 24(1)(a) and (b) of the Freedom of Information and Protection of Privacy Act; to be reviewed in 2024 July.

PREVIOUS COUNCIL DIRECTION / POLICY

As directed at the 2011 January 20 meeting of Audit Committee, and in accordance with the Audit Committee Terms of Reference (Bylaw Number 48M2012), IT is to provide an annual update on information technology risk management and controls. This report provides an overview of IT's risk management strategies and demonstrates how risk management has been embedded into IT's daily operations.

BACKGROUND

The IT business unit is responsible for provisioning, managing, and governing the use of technology, services, and solutions used by City employees, civic partners, and citizens. To properly manage the risks associated with City technology, IT uses the Integrated Risk Management Framework as mandated by the Integrated Risk Management Policy (CC011).

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Each of the 61 services at The City of Calgary relies on technology in order to deliver internal and citizen-facing services. Managing technology-related risks to protect The City's reputation and maintain the public's trust is critical.

As the pace of technology change accelerates, IT is continually reviewing emerging trends to determine where to invest. Ensuring that there are appropriate business cases for technologies such as the Internet of Things is critical to ensure investments offer sufficient benefits to service delivery.

In order to help monitor and manage risks, IT uses a Risk Register to capture risks and takes into consideration their likelihood, impact, and planned mitigation strategies. The IT Risk Register is reviewed by the IT Management Team on a quarterly basis. Information in the Risk Register is used to populate the Chief Financial Officer's Department risk summary and the Annual Principal Corporate Risk Report presented to Audit Committee on 2019 January 31 and 2019 July 23.

**Chief Financial Officer's Report to
Audit Committee
2019 July 23**

**ISC: UNRESTRICTED
AC2019-0945**

Annual Update - Information Technology Risk Management

The IT Management Team, Chief Security Officer, and Chief Information Technology Officer collaborate to ensure existing controls and work plans for improvement activities described in Attachment 1 are manageable. Ongoing mitigation techniques for strategic and operational risks are integrated into IT methodologies, work plans, budgets, and staffing resources. IT's capital investments are driven, in part, to address strategic risks that were identified during the development of the One Calgary 2019-2022 business plan and budget.

Stakeholder Engagement, Research and Communication

On an annual basis, IT conducts a client survey enabling employees to evaluate the performance of the work IT does and to share their level of customer satisfaction. Overall satisfaction has remained high for several consecutive years. In 2018, 92 per cent of survey respondents indicating they were satisfied with their experiences with the IT business unit within the past year, including 48 per cent who have indicated they were very satisfied. Data for the most recent Client Satisfaction Survey was collected 2019 June and the final report is expected 2019 July. A moderate decline in client satisfaction is anticipated due to consolidated workforce productivity devices, rationalized business software titles, and reduced service levels for less-critical IT functions.

IT leverages information from Municipal Benchmarking Network Canada and an industry-leading benchmarking service to compare The City's IT services and costs with other public and private-sector organizations. The most recent benchmarking study highlighted that The City is investing more in IT than its peers, but is managing this investment efficiently.

The Client Satisfaction Survey and the annual benchmarking studies are used to identify where The City is performing favorably and where there are opportunities to improve service delivery or cost efficiency.

Strategic Alignment

Cyber security remains a top concern of The City, as identified in the 2019 Annual Principal Corporate Risk Report (AC2019-0032). Continuous research and education are necessary to understand and adapt to the changing nature of this risk exposure. IT and Corporate Security work closely together to monitor, test, and improve The City's cyber defences to protect against emerging threats. IT's Crisis Management plan was reviewed and tested in 2019 to ensure staff are prepared to respond in the event of a large system outage or security incident.

Employee education and awareness are key components of safeguarding The City's information and technology assets. The Acceptable Use of City Technology Resources was updated in 2016. The Information Management and Security Policy and associated standards (Access and Sharing, Electronic Communications, Information Security Classification, and Intellectual Property) were updated in 2018. Code of Conduct training was rolled out to staff 2018 June. Workshops on Information Management and Security and online training for Information Security Awareness are available to staff on an ongoing basis.

Chief Financial Officer's Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0945

Annual Update - Information Technology Risk Management

The Corporate Technology Committee (CTC) governs the risk and impact of corporate technology investments at The City. As identified in the 2015 Technology Governance Model (AC2014-0936), The City is moving towards a federated governance model. Most City departments have already established or are in the process of establishing technology committees and developing terms of reference for guiding technology investments. The CTC Terms of Reference was updated in 2018 to reflect and clarify the role of the CTC within the federated governance model.

The Corporate Technology Plan was updated in 2018 and defines current and future corporate technology strategies, standards, and direction that help guide The City's business units in their technological decision-making. The Corporate Technology Plan is sponsored by the CTC and supports the corporate technology governance model.

The recently-completed IT Zero-Based Review (ZBR) assessed services and identified specific opportunities for improvements to efficiency and effectiveness. The Right Device opportunity is working to optimize the use of personal productivity devices throughout The City to ensure each user has the right device to their job. The Application Portfolio Management opportunity is focusing on reducing The City's technology debt, decommissioning applications, and rationalizing the application portfolio.

The City's Enterprise Architecture principles have been established to guide technology decisions and actions. Adherence to these principles helps reduce risk when making technology-related decisions.

In accordance with the Corporate Project Management Framework, technology projects managed by IT have dedicated risk registers which are regularly reviewed by the IT project manager, IT's Project Management Office, project sponsors, steering committees, and IT managers to ensure appropriate actions are taken to mitigate project risks.

The IT Software Solutions Methodology for software development projects is a set of best practices and guidelines to ensure stakeholders across the organization are effectively engaged throughout all stages of the project lifecycle.

Social, Environmental, Economic (External)

Effective management of technology risks ensures systems supporting all City services remain functional, secure, and resilient in order to delivery internal and citizen-facing services.

Financial Capacity

Current and Future Operating Budget:

None related to this report.

Current and Future Capital Budget:

None related to this report.

Risk Assessment

The risks identified in Attachment 1 may affect the achievement of Council's Priorities and IT's strategies over the course of the 2019-2022 business cycle. Effective risk management reduces the likelihood and/or the impact of these risks.

Chief Financial Officer's Report to
Audit Committee
2019 July 23

ISC: UNRESTRICTED
AC2019-0945

Annual Update - Information Technology Risk Management

Internal Audits by the City Auditor's Office

Over the past few years, the IT business unit has been the subject of multiple audits by the City Auditor's Office. IT has one outstanding recommendation related to the Open Data Program (AC2018-1008). IT has been identified as a stakeholder / contributor to two remaining recommendations for the Cyber Security Incident Response Audit (AC2018-0410). All outstanding recommendations are expected to be completed by the end of 2019.

External Audit of Year-End Financial Statement

As part of The City's annual external audit, internal processes and controls related to the IT environment are assessed. The external auditor conducts interviews with IT subject matter experts, observes IT operations, and tests IT practices against approved and documented procedures. The assessment for the fiscal year 2018 was completed in February 2019 and all risks related to the identified deficiencies were addressed.

Integrated Risk Management

As mandated in the Integrated Risk Management Policy (CC011), IT identifies and manages risks using the Integrated Risk Management Framework. Risks are analyzed, evaluated, monitored, and managed using the IT Risk Register. The top risks in the IT Risk Register are highlighted in the Chief Financial Officer's Department risk summary and rolled-up into the Principal Corporate Risk Report.

Control Environment Assessment

Audit Committee Bylaw 48M2012 assigns responsibility to the Audit Committee for overseeing the integrity of The City's system of internal controls. The annual assessment is based on the five inter-related components and 17 principles outlined in the COSO Internal Control – Integrated Framework. IT is responsible for several principles within the framework and contributes to the annual assessment. The results of the most recent assessment were presented to Audit Committee on 2019 April 23 (AC2019-0529).

Highlighted Risks

In accordance with Integrated Risk Management best practices, the IT Management Team reviews and updates the IT Risk Register on a quarterly basis and ensures that appropriate actions are being taken to manage identified risks. In 2019, a new 5 x 5 matrix was introduced to evaluate the likelihood and impact of risks. As of the last management review 2019 April, IT identified one risk with a rating of Extensive and nine risks with a rating of High. Information regarding IT risks, existing controls, and planned actions to mitigate likelihood and impact can be found in Attachment 1.

REASON(S) FOR RECOMMENDATION(S):

Audit Committee has internal control and risk management oversight responsibilities of Information Technology.

ATTACHMENT(S)

1. Attachment 1 – Information Technology Risk Register - CONFIDENTIAL
2. Attachment 2 – Information Technology Risk Management Presentation



AC2019-0945 Attachment 2

Annual Update – Information Technology Risk Management



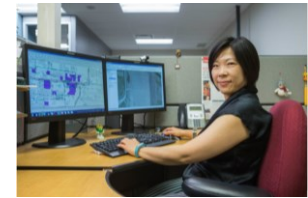


IT Solutions and Support

Workforce Productivity



Business Systems and Consultation



Infrastructure and Platforms



Technology Infrastructure for Future Economic Growth





IT Service by the Numbers

281 citizen-facing transactions available by web or mobile app	18,000 staff network accounts (including Active Directory and myHRconnect)
375,000 myID citizen accounts 7,000 myID business accounts	16,000 staff computing devices (desktops, laptops, and tablets)
660 line-of-business and enterprise applications supported	13,000 telephones and VoIP lines
100 cloud computing implementations (Q4 2018)	6,100 smartphones
86 technology projects executed per year between 2015 and 2018 (average)	30 call centres (including 9-1-1 and 3-1-1)

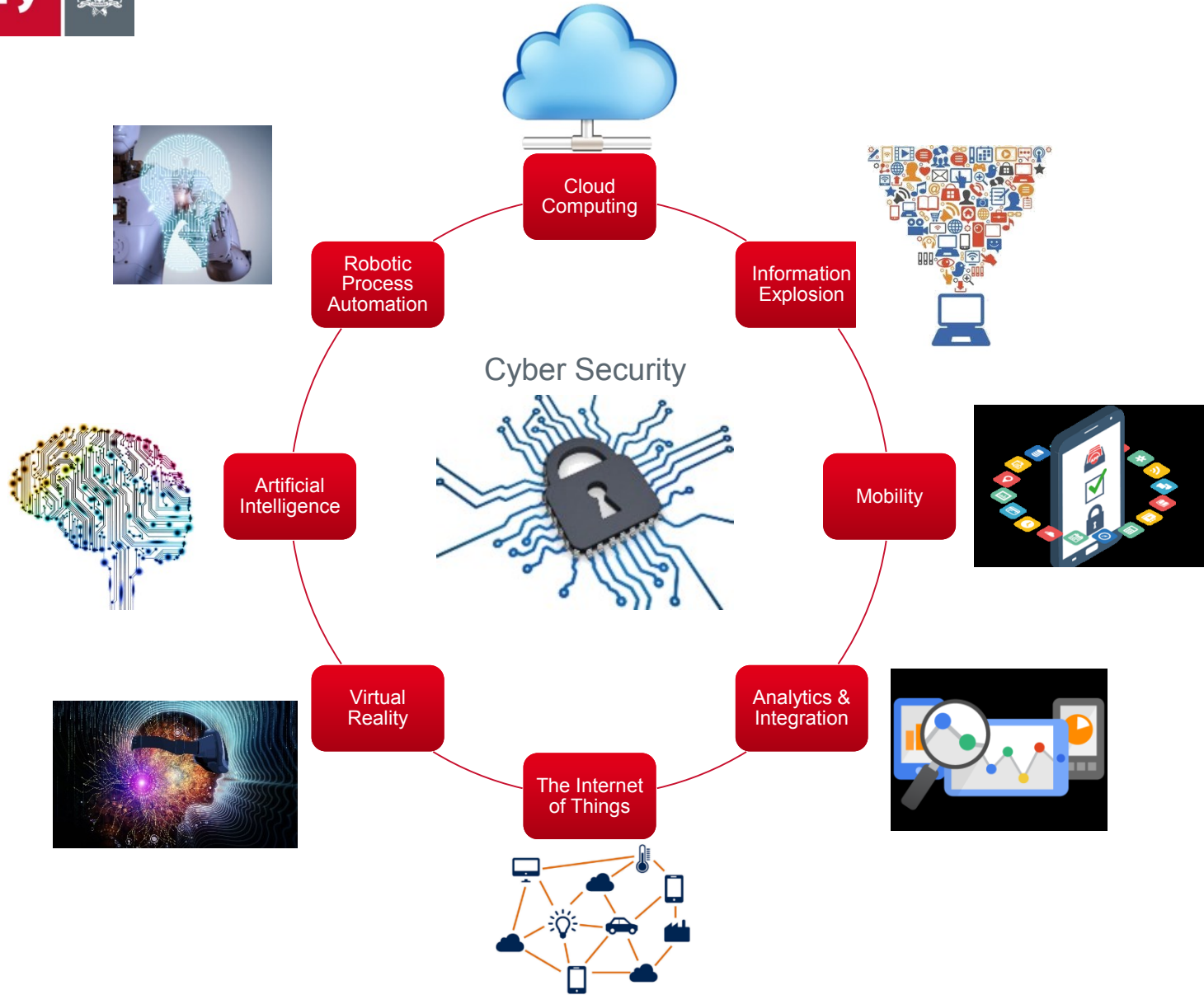


IT Service by the Numbers





Technology Trends





IT Risks - Trends

Risk*	2018		2019	
	Risk Rating	Trend	Risk Rating**	Trend
Technology Security	■	↔	■	↑
Loss of Data	■	↔	■	↑
Capacity	■	↔	■	↓
Extended Lifecycles	■	↑	■	↑
System Failure	■	↔	■	↔
Information Management	■	↔	■	↔
Technology Procurement			■	↔
Service Interruption	■	↓	■	↔
Secure Infrastructure			■	↔
Business Continuity	■	↔	■	↔
Third-Party Services	■	↔		
Contract Compliance	■	↔		

*Additional information on the identified risks can be found in Attachment 1.

**Risk Rating modified from 3 x 3 matrix to 5 x 5 matrix in 2019, shifting risk rating and risks appearing in top ten.



Questions?



Integrated Risk Management Mid-Year Update

EXECUTIVE SUMMARY

Integrated Risk Management (IRM) enhances The City of Calgary's planning and decision making and encourages proactive, rather than reactive, management of risk. It does this through: governance and oversight, integration of IRM with The City's strategic direction, established practices and processes, and review and continuous improvement. IRM contributes to the achievement of Citizen Priorities, Council Directives and Administration's Commitments by encouraging a risk aware culture that informs the development of risk response strategies, contributes to decision-making and reduces uncertainty about the achievement of results.

The Audit Committee is responsible for overseeing the process of The City's IRM system. In keeping with this role, Audit Committee receives reports from Administration twice per year on IRM. This report provides a mid-year update on The City's Principal Corporate Risks (PCRs), which are listed in Attachment 1 and further discussed in Confidential Attachment 2. The report also includes an update on the Integrated Risk Management Program (Attachment 3).

For this update, the information being presented is largely based on The City of Calgary's corporate risk review that was undertaken in 2019 April. This includes the Evidence Based Reviews of the PCRs that were developed as part of the standard process. In addition, risk information from the Administrative Leadership Team and risk owners from 2019 June, is also included. Five of the PCRs including: Capacity for Change, Financial, Growth, Infrastructure Management and Reputation Risk are discussed in detail as these risks are anticipated to be impacted by current stressors, including 2019 budget reductions. This mid-year update presents strategic, relevant and timely risk information in a new format to reflect The City's risk profile.

ADMINISTRATION RECOMMENDATION:

That the Audit Committee recommends that Council:

1. Receive this report for information; and
2. Direct that Attachment 2 remain confidential pursuant to Section 24(1) (a)&(b) of the Freedom of Information and Protection of Privacy Act until 2034 June 30.

PREVIOUS COUNCIL DIRECTION / POLICY

The Audit Committee Bylaw (48M2012) states that the Audit Committee is responsible for "overseeing the process of The City's Integrated Risk Management System". The Audit Committee oversees The City's process of risk identification, risk analysis and management procedures to mitigate risk.

At the Strategic Meeting of Council on 2018 January 31, Council adopted the "Council Directives to Administration for 2019-2022 One Calgary Service Plans and Budgets" (Report C2018-0115), which included the following Council Directive under A Well-Run City:

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

Integrated Risk Management Mid-Year Update

On 2018 November 20, the Audit Committee approved its 2019 Work Plan (AC2019-1319) which included consideration of the Annual Principal Corporate Risk Report on 2019 January 31 AC2019-0032 and an update on the IRM Model and Framework on 2019 July 23.

The Integrated Risk Management Council Policy (CC011) states that significant risks need to be reported to Council or Committee and that certain risks need to be discussed in-camera.

BACKGROUND

The IRM Update report to the Audit Committee is the result of many integrated and ongoing streams of work undertaken to identify, analyze, and determine appropriate responses to risk. The risk review process involves the coordination and support of service owners, departments, and senior leaders with the most strategic, relevant and timely information about risks brought to the Audit Committee. Since 2018, IRM has included a mid-year update on the Principal Corporate Risks to raise awareness and to communicate the most strategic risks facing The City of Calgary.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

In 2019 April, the organization undertook a cross-corporate review of service risks and the Principal Corporate Risks (PCRs). This standard review assessed and analysed the service risk registers for most of The City's 61 services and aligned the risks to the PCRs. Risks associated with operating and capital projects are typically incorporated within the service risk registers. Major capital projects may also include a risk register in their reports to Council. The Principal Corporate Risks were then reflected in The City's updated risk profile which was presented and discussed with The City's Administrative Leadership Team (ALT) on 2019 June 18.

For this mid-year update to the Audit Committee, a summary of the updates to the PCRs is provided below:

Principal Corporate Risks (PCRs) Update

The most significant change to the PCRs for this reporting period is the splitting of the former Economic and Social Risk. At the 2018 December 18 ALT meeting, ALT determined that this risk could be better monitored and managed if it was split into two risks: Economic Risk and Social Impact Risk. This work has been completed with the approved names and risk descriptions provided below:

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

Social Impact Risk: Changes in demographics, economics, and expectations upon the municipal government may put pressure on, and could result in, an inability to respond to the needs of customers who rely on City social programs.

A complete list of the Principal Corporate Risks is included as Attachment 1.

The Principal Corporate Risks are presented on a heat map in Confidential Attachment 2 to illustrate The City's risk profile. This new presentation style incorporates leading practice of showing top risks, risk rankings, relative placement of risks and risk interconnections. Further to the 2019 June 18 meeting of ALT, five of The City's 17 Principal Corporate Risks including:

Integrated Risk Management Mid-Year Update

Capacity for Change, Financial, Growth, Infrastructure Management and Reputational Risks have been plotted on a second heat map; to reflect the anticipated change to the City's risk profile given current stressors, including 2019 budget reductions. Confidential Attachment 2 also includes highlights of The City's risk response strategies.

Finally, Confidential Attachment 2 includes a section on what The City is watching, including global risks and trends. Global risks are included to promote risk awareness and a future-focused approach. Key emerging risks as outlined in the [World Economic Forum \(WEF\), Global Risks Report \(2019\)](#)¹ are also included. This additional information offers a glimpse of potential future areas of analysis that the IRM team will undertake with stakeholders across the organization, including Resilient Calgary.

Integrated Risk Management (IRM) Program Update

The IRM Program continues to support the advancement of risk management across the organization. Attachment 3 provides a detailed update on the IRM Program, focusing on the "Review and Continuous Improvement" pillar of the IRM Framework.

Two key initiatives which are continuing to advance risk practices and culture at The City of Calgary are highlighted below:

Risk Appetite and Tolerance

In 2018, the IRM team developed a framework, common language, and a measurement scale for risk appetite and tolerance: two effective risk management techniques. This year, risk appetite and tolerance guidelines were rolled out to support a risk culture that understands and applies these concepts in decision making. The IRM team is consulting with management and leadership teams and has developed tools and techniques to apply risk appetite and tolerance techniques in different contexts. Working with targeted groups, the IRM team supported them to map out the current and future state for risk appetite and tolerance related to specific risks. Then, IRM developed tools and strategies to realize this movement. By defining risk appetite and tolerance, The City is better able to manage its risks, avoiding the costs associated with excessive controls or those associated with taking on excessive amounts of risk, which may materialize into costly issues.

As part of this work, the IRM team is meeting with Council and Audit Committee members to discuss risk appetite and tolerance for The City of Calgary. The interviews will inform future discussions including a possible Council Strategic Session on risk appetite and tolerance.

2019 IRM Survey and IRM Performance Measure

In 2019 January, the IRM Program conducted a survey of risk maturity and culture at The City of Calgary. The survey was designed to inform the 2019 IRM workplan and longer-term advancement IRM for the organization. The survey results and analysis provided valuable insights regarding program strengths and opportunities for improvement. The survey asked respondents to identify and rate The City's status of risk maturity. The results indicated that the current maturity rating is below the desired rating. The risk maturity rating is a key performance measure for the IRM program. The IRM team has developed a workplan to address the gap and is implementing strategic changes to the organization to further risk maturity.

¹ <https://www.weforum.org/reports/the-global-risks-report-2019>

Integrated Risk Management Mid-Year Update

Stakeholder Engagement, Research and Communication

IRM provides regular updates and communicates the PCRs to stakeholders across the organization. In addition, cross-corporate risk workshops, facilitated sessions and an e-learning course offer additional opportunities for formal and informal communication.

Strategic Alignment

IRM supports the achievement of Citizen Priorities, Council's Directives and Administration's Commitments within the One Calgary 2019-2022 Service Plans and Budgets by supporting the organization to anticipate and address what might prevent us from achieving these strategic goals. The IRM continuous improvement activities support risk-specific components of Council's Directives and Administration's Commitments:

- Council Directive W4, "...We need to create a culture, including City Council, that embraces appropriate levels of risk, innovation, experimentation, and embraces lessons learned as opportunities to improve.", and
- Administration's Commitments, "...This includes a focus on open and proactive communication between members of Council and Administration and a shared understanding of the organization's tolerance for risk."

IRM is a key component of The City's performance management system and is integrated with other elements of the system: performance measurement, benchmarking and reporting; service review and improvement; and planning and budgeting. Together, these tools enhance the effective management of individual services and the Corporation overall.

Social, Environmental, Economic (External)

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

Financial Capacity

Current and future operating budget:

Activities related to the IRM Program continue to be undertaken within approved budgets.

Current and future capital budget:

None related to this report.

Risk Assessment

The City's IRM program supports decision-making and enables successful management of both opportunities as well as threats and hazards. If risks are not identified, assessed, and managed The City is at risk of incurring unnecessary costs and service disruption.

Integrated Risk Management Mid-Year Update

REASON(S) FOR RECOMMENDATION(S):

This report is provided to Audit Committee to support in its role to oversee the process of risk identification, analysis and risk management procedures by providing information on the efficiency and effectiveness of Administration's risk management work. It is recommended that Confidential Attachment 2 be discussed during the closed portion of the meeting to maintain a balance between comprehensive reporting, transparency, and discussion of the principal risks facing The City, while protecting the interests of the organization from unintended harm.

ATTACHMENTS

1. Attachment 1 – List of The City of Calgary's Principal Corporate Risks (Alphabetical Order)
2. Attachment 2 – The City of Calgary Risk Report (Confidential)
3. Attachment 3 – Integrated Risk Management Program Update

THE CITY OF CALGARY'S PRINCIPAL CORPORATE RISKS

The Principal Corporate Risks are updated as of 2019 June 18 and are listed below in alphabetical order.

1. **Business Continuity Risk:** An interruption to an essential service provided to Calgarians caused by a vulnerability being exposed to a natural, technological, or human hazard.
2. **Capacity for Change Risk:** Increasing velocity, pace and quantity of change in the natural, social, economic and political environment, combined with limited flexibility of the organization to respond contributes to reduced capacity, preparation and experience required to implement new initiatives and adapt to changing priorities.
3. **Economic Risk:** Citizens and the business community face ongoing pressure due to the volatility of local and regional economies. This risk can impact demands for municipal services (including social supports), municipal revenue, and The City's priorities.
4. **Environmental Risk:** Potential increase in severe weather and climatic changes may cause disruptions to operations and service delivery. Corporate and community-wide greenhouse gas (GHG) emissions may not meet reduction targets for 2020.
5. **Financial Risk:** Lower general revenues and/or higher expenses than budgeted negatively impacts current and future operating budgets, service delivery, tax rates and our ability to adapt to growth and increases The City's reliance on debt.
6. **Growth Risk:** While growth carries many economic and social benefits, it is also a significant risk for The City because many services and infrastructure need to be in place prior to, or timed with, demand. This means The City must anticipate both the level and spatial pattern of growth. These risks can impact The City's capacity to deliver and provide infrastructure and services that meet city-wide demands.
7. **Health & Safety Risk:** Potential harm to City employees and contractors. This may result from non-compliance with health and safety regulations or an incident that could impact City employees/contractors and/or citizens, and expose the organization to potential financial and reputational risks.
8. **Infrastructure Management Risk:** The City owns and operates public infrastructure systems including water service, storm and sanitary sewers, roads, sidewalks, pathways, bridges and other structures and buildings. Ensuring that assets are in good, reliable condition is essential to keeping the city safe. The City is exposed to the risk of assets failing, particularly from inadequate lifecycle maintenance.
9. **Legal & Compliance Risk:** Law provides legal, governance, risk management, and issues management advice with respect to federal and provincial laws and bylaws. Advice is not always sought in sufficient time to allow a strategy to be developed or action to be taken on a proactive basis, resulting in the corporation having to react to issues or lawsuits. This can impair the corporation's ability to complete projects and conclude transactions on time, on

budget and within scope, and may result in financial losses or unnecessary business, legal, financial or reputational risk for The City.

10. **Operations, Process Risk:** Failure to ensure appropriate processes are in place to manage the complexity of operations.
11. **Partnership Risk (Civic Partners):** Counterparty risk arising from City partners unable to deliver services.
12. **Political Risk:** Changing priorities or actions of municipal, regional, or other orders of government paired with rapid changes in the natural, social or economic environment could result in funding challenges that may adversely impact The City's ability to deliver on citizen expectations.
13. **Reputation Risk:** Reputation risk is damage to the image of The City or negative perceptions by citizens or stakeholders as a result of actions of elected officials or City employees. This risk can threaten The City's ability to maintain positive and productive relationships with citizens, businesses, partners and the ability to achieve its corporate objectives.
14. **Security Risk*:** A violent attack on or in City space could result in loss of life, serious injury as well as halting critical service delivery.
15. **Social Impact Risk:** Changes in demographics, economics, and expectations upon the municipal government may put pressure on, and could result in, an inability to respond to the needs of customers who rely on City social programs.
16. **Talent Management & Workforce Planning Vulnerability Risk:** Inability to attract, develop, engage and retain key talent and knowledge in order to meet current and future business needs.
17. **Technology Risk:** There is a risk to business disruption due to vulnerability or failure of applications. Rapid pace of emerging threats such as cyber-attacks (willful attack on public infrastructure, public safety, transportation, water treatment, system access, intentional damage, privacy breach, distributed denial-of-service attacks, etc.). Potential impacts include breaches of confidential information, and disruption to the availability of critical systems and applications, and the integrity of those systems.

*Note: A complete description of the Security Risk is provided in Confidential Attachment 2.

Integrated Risk Management Program Update

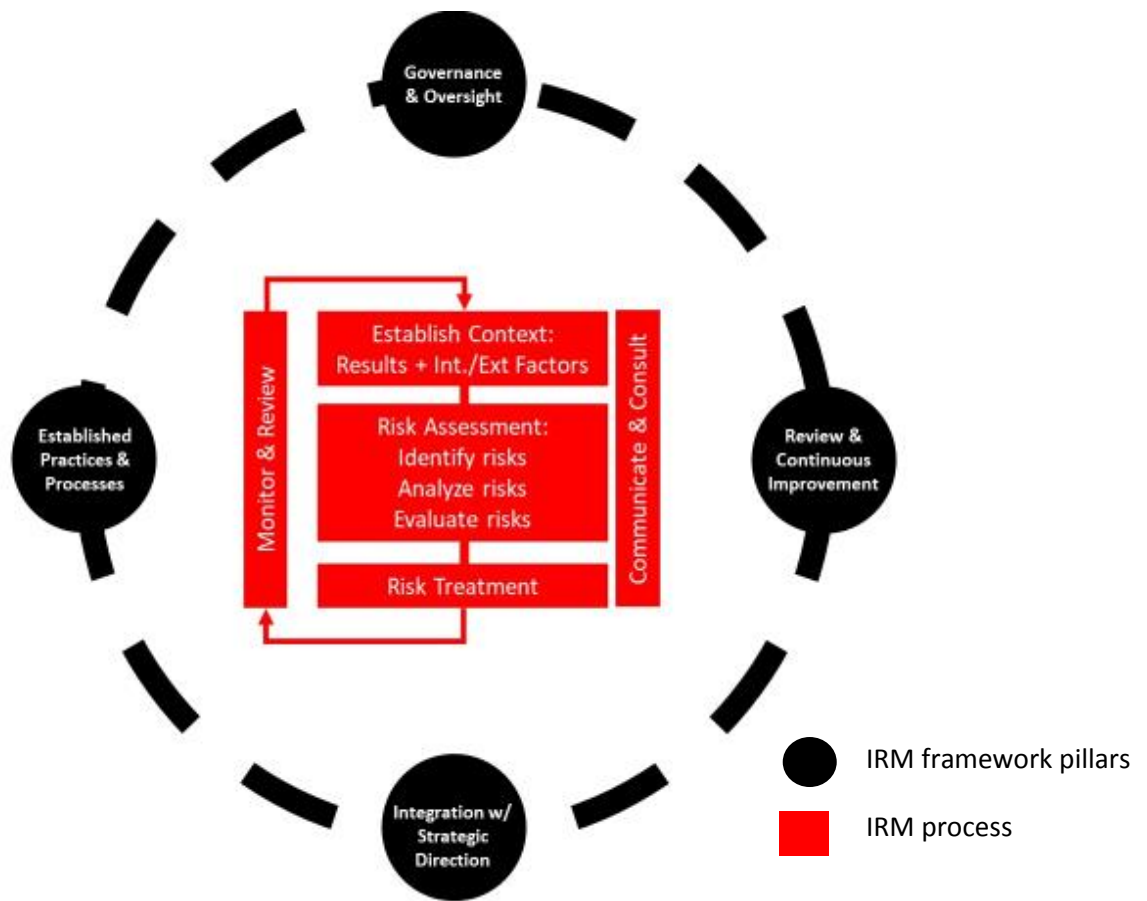
This Attachment provides an update of the Integrated Risk Management (IRM) Program. The City’s IRM framework (Diagram 1) contains four pillars:

- Governance and oversight;
- Integration of IRM with The City’s strategic direction;
- Established practices and processes; and
- Review and continuous improvement

The four pillars provide assurance that The City has the appropriate processes in place to manage risks and opportunities effectively. The framework is based on the foundations of the ISO 31000 Standard, which includes a systematic process of integrating risk management at every level within an organization. The risk management process is included in the centre of the framework in red.

This IRM program update focuses on the “Review and Continuous Improvement” pillar of the framework to share program highlights of how IRM is continuing to advance risk management at The City of Calgary.

Diagram 1 – The City of Calgary’s IRM Framework





Review and Continuous Improvement

The City's IRM Program continues to support the advancement of risk management across the organization and has adopted 3 Program Goals for 2019:

1. **Develop a more robust risk culture.**

- Foster a robust risk culture in alignment with the City's Corporate Values and 4Cs.
- Define The City's risk appetite and tolerance. Introduce concepts through facilitated workshops.

2. **Advance and continuously improve IRM focusing on supporting stakeholders' needs, building capacity and implementing performance measures.**

- The Risk Maturity Survey conducted in 2019 January indicated a strong interest and need for advancing risk maturity.
- The 5x5 Matrix has been implemented across the organization and was well received. Services completed their 2019 mid-year risk review using the 5x5 matrix.
- Council's IRM Policy (CC011) is being reviewed to update risk definitions, risk principles and to incorporate common language.
- The IRM city-specific course has been reformatted to a new on-line course that will be available to all employees at the end of 2019 July.

3. **Improve communication and coordination of risk.**

- Update the risk assessment section of Council Reports: clarify what information is required; how information is displayed; and promote consistency and transparency concerning risk assessments in reports.
- Investigate options to stream-line and automate the corporate risk review process to reduce the existing labour-intensive practice.

Looking Ahead

Continued improvement will be achieved through the following opportunities:

- Present risks and risk strategies in presentations to Committee and Council for the purpose of raising risk awareness, intentionally managing risk and capitalizing on opportunities within acceptable risk tolerances. Promote the use of the IRM standard for capital projects and programs to support leading risk management practices.
- Prioritize and communicate the top risks facing The City to inform decision making, and contribute to strategic planning and a resilient city.

Above all, within the rapidly changing risk environment in which The City currently operates, the IRM program will remain flexible, re-evaluate stakeholders' needs and will focus on the longer-term goal of advancing The City's risk culture and bringing value to the organization. The IRM program will continue to use best practices, tools and techniques to meet the needs of the organization and will continue to measure progress and report on the value of risk management.

**Audit Resource Management Report to
Audit Committee
2019 July 23**

**ISC: UNRESTRICTED
AC2019-0936
Page 1 of 2**

EXTERNAL AUDITOR 2019 AUDIT SERVICE PLAN AND FEES

EXECUTIVE SUMMARY

This report seeks the Audit Committee's approval with respect to External Auditor, Deloitte LLP's proposed 2019 Audit Service Plan and Fees for the audit of the consolidated financial statements of The City of Calgary.

ADMINISTRATION RECOMMENDATION(S)

That the Audit Committee:

1. Reviews and approves the Deloitte 2019 Audit Service Plan (Attachment); and
2. Recommends that Council receive this Report and the Attachment for information.

PREVIOUS COUNCIL DIRECTION / POLICY

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

Schedule B, Regarding the External Auditor

"1(b) pre-approves all audit and non-audit services performed by the External Auditor.

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

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

BACKGROUND

Prior to beginning the annual audit, the External Auditor submits an Audit Service Plan to the Audit Committee for approval. Deloitte LLP, The City's external auditor for the 2019 fiscal year, has prepared an Audit Service Plan and the estimated fees for Audit Committee to review (Attachment).

The Audit Service Plan includes an overview of the audit scope and approach, related parties and other audits, planned communications, audit engagement team, key considerations affecting the 2019 Audit and an estimate of the fees. The audit is designed to enable Deloitte to express an opinion on the 2019 December 31 consolidated financial statements of the City of Calgary.

The Audit Service Plan indicates an audit completion date of 2020 April, including a meeting with Audit Committee and the issuance of the management letter in 2020 June. This will enable the City to meet the 2020 May 01 Municipal Government Act deadline with the Province of Alberta, for filing its audited annual financial statements.

**Audit Resource Management Report to
Audit Committee
2019 July 23**

**ISC: UNRESTRICTED
AC2019-0936
Page 2 of 2**

EXTERNAL AUDITOR 2019 AUDIT SERVICE PLAN AND FEES

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Not applicable

Stakeholder Engagement, Research and Communication

Not applicable.

Strategic Alignment

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

Social, Environmental, Economic (External)

Not applicable

Financial Capacity

Current and Future Operating Budget:

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

Current and Future Capital Budget:

There are no capital budget implications for this report.

Risk Assessment

Not applicable

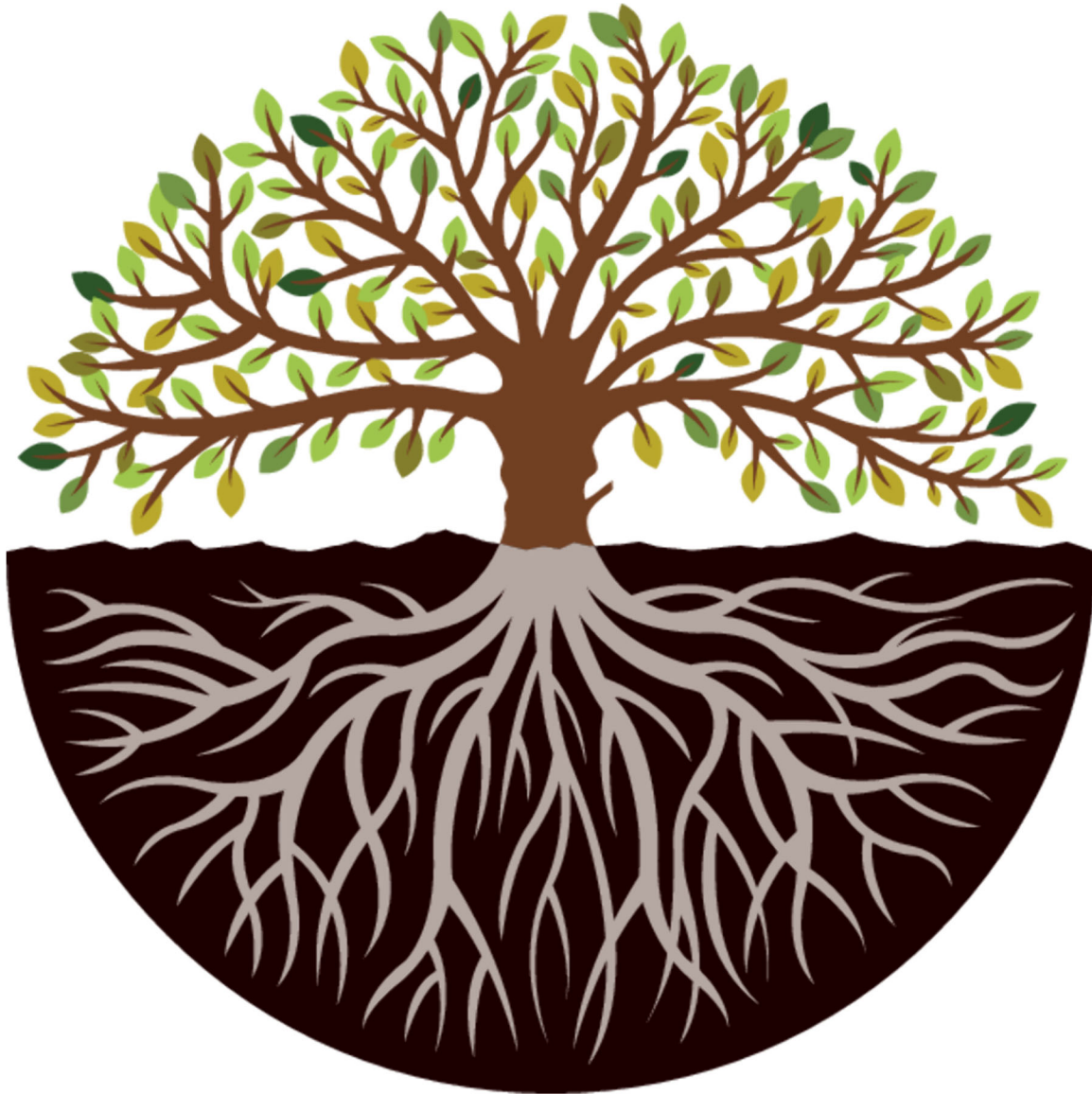
REASON(S) FOR RECOMMENDATION(S):

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

ATTACHMENT(S)

Deloitte – The City of Calgary 2019 Audit Service Plan

Deloitte.



The City of Calgary
2019 Audit service plan

For the year ending December 31, 2019
Presented to the Audit Committee
July 23, 2019

July 15, 2019

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

2019 Audit service plan

Dear Audit Committee Members:

We are pleased to provide you with our audit service plan for The City of Calgary ("The City") for the year ending December 31, 2019. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, our team, and an estimate of our fees.

We are proud of our relationship with The City. Our objective at Deloitte is to set the standard of excellence and our team is committed to providing an efficient, high-quality audit. Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of specialists.

Our engagement will include an audit of:

- The City's consolidated financial statements (the "financial statements") as at and for the year ending December 31, 2019, prepared in accordance with Canadian public sector accounting standards ("PSAS") and conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS");
- The Municipal Information Return for the year ending December 31, 2019;
- The Funds Held in Trust by The City for the year ending December 31, 2019; and
- The City newspaper insert for the year ending December 31, 2019 (summarization of The City's 2019 financial information).

We are providing this audit service plan to the Audit Committee (the "Committee") on a confidential basis. It is intended solely for the use of the Committee to assist in discharging its responsibilities with respect to the financial statements for the year ending December 31, 2019 and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on it.

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

Yours truly,



Chartered Professional Accountants

Table of contents

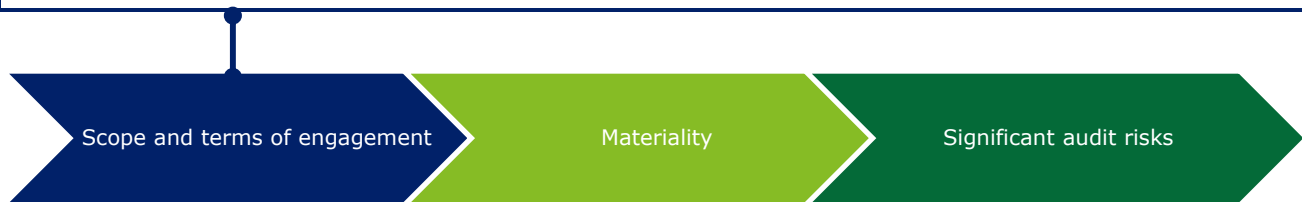
Our audit explained	1
Significant audit risks	3
Appendix 1 – Audit approach	9
Appendix 2 – Audit fees	14
Appendix 3 – Related parties and other audits	15
Appendix 4 – Communication requirements	17
Appendix 5 – Audit team	19
Appendix 6 – 2019 Summary audit timeline	20
Appendix 7 – Audit committee terms of reference	21
Appendix 8 – Upcoming financial reporting standards	23
Appendix 9 – Confirmation of Changes to MSA	24
Appendix 10 – Deloitte resources a click away	27

Our audit explained

Audit scope and terms of engagement

We have been asked to perform an audit of The City's consolidated financial statements (the "financial statements") in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ending December 31, 2019. Our audit will be conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the master services agreement ("MSA") dated July 25, 2018 and signed by the Audit Committee and Administration and confirmation of changes to the MSA included in Appendix 9. The confirmation of changes to the MSA includes updates to the terms and conditions for fiscal year 2019 and should be signed on behalf of City Council and Administration.



Materiality

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

Materiality levels are determined on the basis of consolidated budgeted operating expenses and other qualitative factors. Our preliminary estimate of materiality for the year ending December 31, 2019, has been set at \$65M (2018, \$60M).

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

Significant audit risks

Through our preliminary risk assessment process, we have identified the significant audit risks. These risks of material misstatement and related audit responses are discussed in the Significant audit risks section of this report (pages 3 to 8).

Fraud risk

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

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

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

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

Complete engagement reporting

Audit reporting

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

- This Audit Service Plan
- Year-end Audit Report
- Our Auditor's Report on the financial statements

Management Recommendations Letter

We will provide you with insights into the condition of your operations, controls and offer meaningful suggestions for improvement following the completion of the fiscal 2019 audit.



Audit fees

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

Significant audit risks

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

Tangible Capital Assets

Audit risk

Completeness and valuation of Tangible Capital Assets ("TCA").

Our proposed audit response

- We will audit The City's TCA additions, disposals, and amortization along with related disclosures. Our testing will include, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the definition of capital are included and are appropriately valued.
- We will also test a sample of items recorded as repairs and maintenance to ensure these amounts are appropriately expensed.
- We will review Administration's assessment of impairment indicators of TCA and perform audit procedures on any amounts written down in the year.
- We will test TCA work in progress ("WIP") additions to ensure these WIP additions were appropriately accounted for as WIP. We will also test the aging of TCA projects to ensure appropriate accounting treatment of those projects in the year-end financial statements.

Administration override of controls

Audit risk

Assurance standards include the presumption of Administration override of controls as a significant risk. Administration may be in a unique position to perpetrate fraud because of Administration's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our proposed audit response

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

Capital deposits – revenue recognition

Audit risk

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

Our proposed audit response

- We will apply audit procedures to revenue recognition of capital deposits relating to both government funding and private contributions. Our testing will include, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the revenue recognition criteria under PSAS are recognized as revenue.
- We will review capital deposit contracts to ensure that the revenue recorded aligns with the stipulations in the contract.
- We will apply audit procedures to test the completeness of revenue by reviewing budget deficits recorded in Q1 2020 to determine if grant funding has been applied in the appropriate period.
- We will also test the design and implementation as well as operating effectiveness of relevant internal controls at the business unit level.

New Accounting Standards

Audit risk

The following accounting standard is required to be adopted for the year ending December 31, 2019:

- *Restructuring transactions*, Section PS 3430

There is a risk that the application of this standard is not consistent or compliant with the guidance provided within the standard.

Our proposed audit response

- We will review The City's methodology and process for application and adoption of the standard, which will include a review of position papers prepared by Administration.
- We will audit a sample of the accounting transactions recorded under this standard, if applicable.
- We will also review the disclosure in the year-end financial statements to ensure compliance with the applicable guidance within the accounting standards.

As we perform our audit procedures, we will inform you of any significant changes to the significant risks discussed above and the reasons for those changes.

Areas of focus for 2019

Public Private Partnership (“P3”) Agreements

Audit risk

During fiscal 2015 and 2016, The City signed the following P3 agreements:

Stoney Transit Facility effective September 13, 2016, and the Composting Facility Project effective June 25, 2015.

P3 agreements can include a number of complex underlying accounting treatments which require an in-depth, detailed analysis to ensure all accounting and financial reporting matters impacting the consolidated financial statements are taken into consideration. As there is currently no specific accounting standard under PSAS which provides accounting and financial reporting guidance, an entity is required to complete its own analysis specific to the agreement entered into in conjunction with existing accounting standards.

As the Composting Facility Project was completed in fiscal 2017, The City commenced accounting for this facility in the 2017 year-end financial statements as TCA.

The Stoney Transit Facility is expected to be completed in 2019.

Due to the highly complex nature of P3 agreements and the related accounting implications there is a risk the accounting for these transactions is not complete or accurate. There is also a risk that the financial statement presentation and disclosure is not complete.

Our proposed audit response

- We will apply audit procedures on the accounting transactions for the P3 agreements to ensure that these transactions have been accurately and completely recorded in the year-end financial statements in accordance with Administration’s proposed accounting treatment and applicable accounting standards.
- We will also review the disclosure in the year-end financial statements to ensure this is in compliance with applicable accounting standards.

PS 3260, Liability for contaminated sites

Audit risk

Completeness and accuracy of the liability for contaminated sites.

Our proposed audit response

- We will review The City’s methodology for application of this standard on City owned land and property. We will audit the assumptions and the calculation of the liability associated with the potential remediation costs. We will also review The City’s assessment of all sites identified as having a high risk of contamination.
- We will review financial statement disclosure to ensure consistent with accounting guidance.

PS 3270, Solid waste landfill closure and post-closure liability

Audit risk

Valuation of environmental liabilities and asset retirement obligations, relating to the accrual of post closure landfill liabilities.

Our proposed audit response

- We will review The City's estimates of post closure landfill liabilities.
- We will review City Council minutes and legal confirmations, hold discussions with Administration and rely on our knowledge of business to ensure completeness of the liability.
- We will review Administration's estimates and assumptions for reasonability and perform tests of details on the transactions during the year.
- We will require representations to be signed by Administration that all environmental liabilities and clean-up costs are complete and appropriately disclosed.

Funding contracts

Audit risk

Disclosure and completeness of liabilities and commitments under funding contracts provided by The City.

Our proposed audit response

- We will review Administration's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered into during the year.
- We will test a sample of funding contracts entered into during the year to assess Administration's treatment and appropriate recording of these transactions.
- We will also assess the completeness of the balances via review of City Council minutes and performing a search for unrecorded liabilities as well as a review of prior year estimates.

Related parties (authorities/subsidiaries/civic partners)

Audit risk

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

Our proposed audit response

- We will review The City's accounting policies and any changes therein related to its related parties.
- We will verify that the related parties have been accounted for and disclosed in accordance with The City's accounting policies and PSAS and perform separate audits of significant related parties.
- We will audit all material balances relating to the related parties.

Litigation accruals and contingencies

Audit risk

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

Our proposed audit response

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

Government grants and transfers

Audit risk

Accounting and disclosure of government grants and transfers.

Our proposed audit response

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

Tax revenue

Audit risk

Completeness and accuracy of the accounting for tax revenue.

Our proposed audit response

- We will perform reasonability tests on tax revenue balances.
- We will review and test the tax revenue business cycle process controls.
- We will complete data analytical testing on the property tax revenues for the year ending December 31, 2019.

Reserves

Audit risk

Completeness and accuracy of the recording and presentation of reserves.

Our proposed audit response

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

Long-term debt, pension liability, contractual and other long-term obligations

Audit risk

Disclosure and completeness of long-term debt, pension liability, contractual and other long-term obligations.

Our proposed audit response

- We will review the completeness and accuracy of the financial statement disclosures relating to The City's long-term debt, pension liability, and contractual and other long-term obligations.
- We will ensure that these disclosures are in accordance with PSAS guidance.

Non-standard transactions

Audit risk

Completeness and accuracy of non-standard transactions.

Our proposed audit response

- Non-standard transactions are inherently riskier as there is no precedence for which to account for these items. Examples of non-standard transactions may include, but are not limited to, transfer of lands to/from the Province, transfer of corporate properties between business units, and purchase and sale of properties.
- We will review large transactions that have occurred during the year to ensure that these transactions have been accurately and completely recorded in the year-end financial statements.

Adoption of future accounting standards

Audit risk

Appendix 8 includes future accounting standards that are required to be adopted by The City along with the adoption dates. Many of these standards are highly complex, require significant planning and resource allocation and impact a number of business units. There is a risk that the adoption of the new standards is not compliant with guidance within the standards or is not completed to meet the required adoption deadline.

Our proposed audit response

During fiscal 2019, we will review the workplan developed by Administration to ensure the following are included in the workplan:

- roles and responsibilities of business units and Corporate Finance Reporting personnel.
- deliverables and key internal reporting deadlines.
- Implementation and delivery of training sessions for those business units and finance personnel responsible for the implementation of the accounting standards.

As we perform our audit procedures, we will inform you of any significant changes to the areas of focus discussed above and the reasons for those changes.

Appendix 1 – Audit approach

Deloitte’s audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing The City.

The following steps are not necessarily sequential nor are they mutually exclusive. For example, once we have developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions
- Understanding the composition and structure of your business and organization
- Understanding your accounting processes and internal controls
- Understanding your information technology systems
- Identifying potential engagement risks
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks

2. Assessing and responding to engagement risk

Our Audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Consideration of the risk of fraud

When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of Administration representations.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement.
- Evaluate whether The City’s selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from Administration’s effort to manage earnings.
- Incorporate an element of unpredictability when selecting the nature, timing, and extent of our audit procedures.

We will inquire directly of the Committee regarding:

- Its views about the risk of fraud;
- Whether it has knowledge of any actual or suspected fraud affecting The City; and
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Committee is aware of tips or complaints regarding The City's financial reporting (including those received through The City's internal whistleblower program), and, if so, the Committee's responses to such tips and complaints and whether it is aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations.

If we suspect fraud involving Administration, we will communicate these suspicions to the Committee and discuss the nature, timing, and extent of audit procedures necessary to complete the audit.

Information technology

An important part of our audit planning process involves gaining an understanding of:

1. The importance of the computer environment relative to the risks to financial reporting;
2. The way in which that environment supports the control procedures we intend to rely on when conducting our audit; and
3. The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the financial statements. To accomplish this, we gain an up-to-date understanding of your organization's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

We will assess the design and effectiveness of general computer controls in the following areas:

- Data centre and network operations;
- System software acquisition, change and maintenance;
- Program change;
- Access security; and
- Application system acquisition, development, and maintenance.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with Administration for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and

establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for Administration's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach, and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Committee and Administration of any significant deficiencies that are identified in the course of conducting the audit.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the financial statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the financial statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the clearly trivial threshold has been set at 5% of materiality), will be reported to Administration and the Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion, and
- The misstatements identified during the audit do not result in the financial statements being materially misstated.

Independence

We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditor to The City.

We are independent of The City and we will reconfirm our independence in our final report to the Committee.

5. Leveraging technology

Our audit approach utilizes fully automated, paperless audit software where information and supporting schedules are prepared and exchanged electronically. Our audit software facilitates leveraging what The City already prepares as part of account analysis and financial closings and allows us to share files and work papers with our engagement team members. We use other web-based connectivity tools and file interrogation software to quickly and comprehensively analyze data. Our audit software supports the full lifecycle of an audit engagement. The proprietary software we use is globally connected and allows for real-time tracking, ultimately providing better status reporting to our clients. Our software leverages industry guidance and knowledge so that we tailor our approach in a meaningful way to reflect the nuances of our clients' businesses. Our ability to customize our software to each client's specific situation enables us to have

more engaging business conversations. In addition, our software allows us to track findings and observations noted throughout the course of our audit, enabling us to provide our clients with more meaningful insights and discuss any issues as they arise with fewer surprises.

The tools described in the following table help us determine our audit scope, prepare consistent audit work papers and files, conduct analytical procedures, select data for testing, accumulate audit results and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of The City’s own technologies to gain further efficiencies.

Technology	Description	Benefits
Deloitte Audit System	Deloitte’s audit software, incorporating audit-specific templates, reference materials, support documents and Administration insights.	<ul style="list-style-type: none"> • Rapid and effective electronic transfer of information among the audit team members.
Deloitte Spotlight	An integrated analytics application that leverages analytical data techniques to more effectively test large volumes of journal entry data, in order to uncover unusual trends, patterns, or anomalies in The City’s journal entries.	<ul style="list-style-type: none"> • Enables easy extraction from your systems and other applications in a consistent and repeatable format that requires minimal effort from you. • Allows for the customization of characteristics of fraudulent journal entries, which are specific to particular circumstances. • Analyzes the entire journal entry data set and returns results in a matter of minutes. • This tool further enhances the data analytics & visualization tools above for testing of journal entries.
Data Analytics & Visualization	The City will get an enhanced access to leading practices in data mining and insightful analytics reports. Our Data Visualization Toolset can also help more clearly, and effectively, interpret and understand complex data sets.	<ul style="list-style-type: none"> • Pinpoints risks more effectively, allowing us to focus on outliers and reduces efforts spent on tedious detail testing that provides less insight. • Allows for the visualization of the group audit scope and strategy to very quickly assess the sufficiency of coverage. • This tool is currently utilized on The City audit engagement through testing of property and business tax revenue.

Technology	Description	Benefits
Deloitte Technical Library	A comprehensive online compilation of accounting and financial disclosure literature that allows Deloitte to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our own interpretations and guidance.	<ul style="list-style-type: none"> • The extensive accounting and reporting guidance helps support the quick and efficient research of complex accounting matters.

6. Audit scope uncertainty

Our audit service plan is based on several assumptions. Circumstances may arise during the engagement that could significantly affect the scope, extent, and timing of our audit procedures. These circumstances may include, but are not limited to:

- A deterioration in the quality of The City’s accounting records during the current year engagement compared to the prior year engagement;
- The identification of significant deficiencies in The City’s internal control that result in the expansion of our audit procedures;
- The identification, during our audit, of a significant level of proposed audit adjustments; and
- The occurrence of significant new issues or changes, such as:
 - New accounting issues;
 - Changes in accounting policies or practices from those used in prior years;
 - Events or transactions not contemplated in our budget;
 - Changes in The City’s financial reporting process or IT systems;
 - Changes in The City’s accounting personnel, their responsibilities, or their availability;
 - Changes in auditing standards;
 - Significant adjustments to accounts and balances;
 - Changes in The City’s use of experts or specialists and/or their work product does not meet the qualifications that Canadian GAAS require for us to be able to use their work; and
 - Changes in the audit scope caused by events that are beyond our control.

If any of these or similar such circumstances arise during the course of our audit, we will discuss them on a timely basis with Administration and provide the Committee with a report regarding the impact on our audit at its next scheduled meeting. Matters that we consider to be significant and that may be sensitive from a reporting timing perspective will be communicated immediately to the Chair of the Committee.

Appendix 2 – Audit fees

We focus our activities and make every effort to optimize the efficiency of our audit.

We recognize and are sensitive to your concerns about managing costs. Therefore, we will maximize the efficiency of our audit by focusing on risk areas and coordinating our activities with Administration. Furthermore, our current audit plan builds upon the successes achieved in the 2018 year-end audit.

The following fee estimate is preliminary and may be adjusted based on the final scope of our audit and our final determination of the audit procedures that we consider necessary to enable us to express an opinion on the financial statements. Our anticipated level of work and the associated fee estimate do not include the effect of any regulatory or other changes to existing auditing and accounting standards yet to be issued. We will seek the Committee’s pre-approval before commencing the additional procedures arising from these unexpected changes.

The 2019 estimated audit fees are as follows:	2019*	2018*
The City of Calgary consolidated financial statement audit	\$272,000	\$270,000
Municipal Information Return	\$4,600	\$4,600
Funds Held in Trust Audit	\$1,800	\$1,800
Newspaper insert (summarization of The City’s financial information)	Included in the City of Calgary Audit fee	Included in the City of Calgary Audit fee
<i>PS 3260, Liability for contaminated sites</i>	\$5,000	\$5,000
Audit procedures on accounting transactions and related to financial statement disclosure of P3 Agreement – Stoney Transit Facility dated September 13, 2016	\$5,000	\$5,000
Audit procedures on related authorities for consolidation purposes	\$18,500	\$16,500
Additional audits as requested by Administration and the Committee up to approval limit	\$25,000	\$25,000
Adoption of new accounting standard for December 31, 2019	\$7,500**	\$28,000
Review of implementation of TCA Vehicles policies and procedures on a prospective basis	-	\$4,500
Total	\$339,400	\$360,400

* These fees are subject to a 7% administrative charge and applicable GST.

** Preliminary estimate subject to review following completion of Administration’s assessment of the new standard.

Appendix 3 – Related parties and other audits

Summary of engagement timing and estimated fees for the year ending December 31, 2019. These fees include only the base audit fee for each entity.

Entity	Reporting entity relationship	Estimated audit completion	Estimated 2019 audit fee**	2018 audit fee
The City of Calgary consolidated	City of Calgary Audit Committee	April 2020	\$272,000	\$270,000
Calgary Municipal Land Corporation	Calgary Municipal Land Corporation Audit Committee	April 2020	\$52,200	\$51,700
Calgary Parking Authority	Calgary Parking Authority Audit Committee	March 2020	\$90,200	\$89,300
Calgary Public Library	Calgary Public Library Finance and Audit Committee	March 2020	\$40,100	\$39,700
Calhome Properties Ltd.	Calhome Properties Ltd. Audit Committee	March 2020	\$79,200	\$78,400
Calgary Police Service	Calgary Police Commission	May 2020*	\$50,100	\$49,600
TELUS Convention Centre	TELUS Convention Centre Audit Committee	May 2020*	\$42,400	\$42,000
ENMAX Corporation	ENMAX Audit Committee	March 2020	\$318,700	\$315,500
Elected Officials Pension Plan	Pension Governance Committee	May 2020	\$7,400	\$7,300
Supplementary Pension Plan	Pension Governance Committee	May 2020	\$14,000	\$13,900
Municipal Employees Benefits Association of Calgary	Executive Committee of Municipal Employees Benefits Association of Calgary	April 2020	\$25,700	\$25,400
Family & Community Support Services	City of Calgary Administration	April 2020	\$20,100	\$19,900
Municipal Information Return	City of Calgary Administration	April 2020	\$4,600	\$4,600
Funds Held in Trust	City of Calgary Administration	April 2020	\$1,800	\$1,800
Core Benefit Plan	Audit to be completed every four years – next audit will be fiscal 2021	-	-	-
Total			\$1,018,500	\$1,009,100

*Fieldwork will be completed by March 2020.

**The fee estimate is per the agreed upon rates in the 2018 Request for Proposal and external audit contract, which is a 1% increase over the prior year amount for base audit fees. These fees are subject to review for changes in accounting or auditing standards and operational changes which may impact the final fees. The fees are subject to 7% Administrative charge and GST.

Consolidation

For the purposes of The City’s consolidated financial statements, each reporting entity is required to provide their final internal financial statements to Administration prior to completion of the consolidated audit. The timing of our audit procedures is planned for completion prior to the anticipated final auditor’s report for The City. Our final auditor’s reports are presented to each reporting entity at their respective Audit Committee meetings.

Appendix 4 – Communication requirements

Required communication	Reference
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements	CAS ¹ 260.14
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audit b. Significant risks, including fraud risks c. Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures related to significant risk 	CAS 260.15
3. Significant transactions outside of the normal course of business, including related party transactions	CAS 260 App. 2, CAS 550.27
Enquiries of those charged with governance	
4. How those charged with governance exercise oversight over Administration’s process for identifying and responding to the risk of fraud and the internal control that Administration has established to mitigate these risks	CAS 240.20
5. Any known suspected or alleged fraud affecting The City	CAS 240.21
6. Whether The City is in compliance with laws and regulations	CAS 250.14
Year-end communication	
7. Fraud or possible fraud identified through the audit process	CAS 240.40-.42
8. Significant accounting policies, practices, unusual transactions, and our related conclusions	CAS 260.16 a.
9. Alternative treatments for accounting policies and practices that have been discussed with Administration during the current audit period	CAS 260.16 a.
10. Matters related to going concern	CAS 570.23
11. Administration judgments and accounting estimates	CAS 260.16 a.
12. Significant difficulties, if any, encountered during the audit	CAS 260.16 b.
13. Material written communications between Administration and us, including Administration representation letters	CAS 260.16 c.
14. Other matters that are significant to the oversight of the financial reporting process	CAS 260.16 d.
15. Modifications to our opinion(s)	CAS 260.A18

¹ CAS: Canadian Auditing Standards – CAS are issued by the Auditing and Assurance Standards Board of CPA Canada

Required communication	Reference
Year-end communication	
16. Our views of significant accounting or auditing matters for which Administration consulted with other accountants and about which we have concerns	CAS 260.A19
17. Significant matters discussed with Administration	CAS 260.A.19
18. Matters involving non-compliance with laws and regulations that come to our attention	CAS 250.23
19. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements	CAS 265
20. Uncorrected misstatements and disclosure items	CAS 450.12-13
21. Any significant matters arising during the audit in connection with The City's related parties	CAS 550.27

Appendix 5 – Audit team

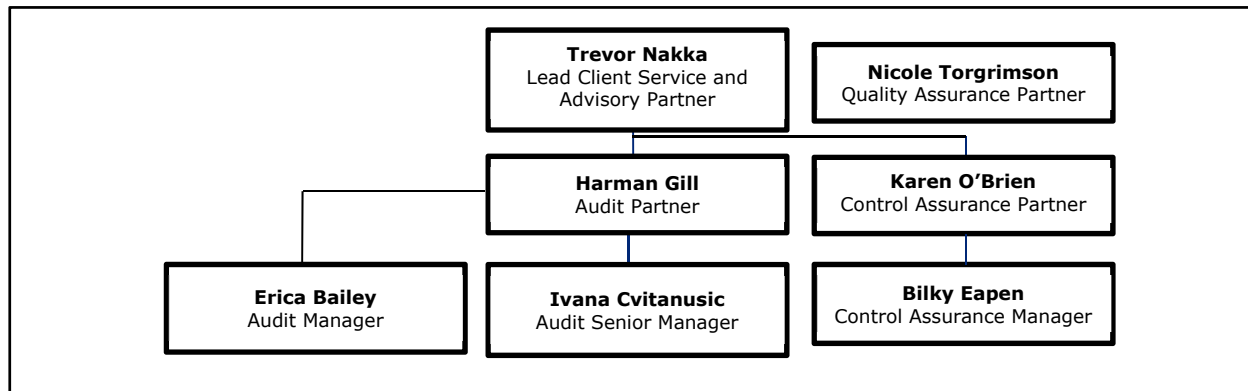
We are led by Trevor Nakka, lead client service and advisory partner. As a team we are committed to delivering on Deloitte’s client service principles to:

- **Make** and meet our commitments to our clients
- **Understand** our clients’ business and what is important to them
- **Provide** value through technical competence and consistent results
- **Demonstrate** professionalism through effective interaction and communications, and
- Provide a **no surprises** experience.

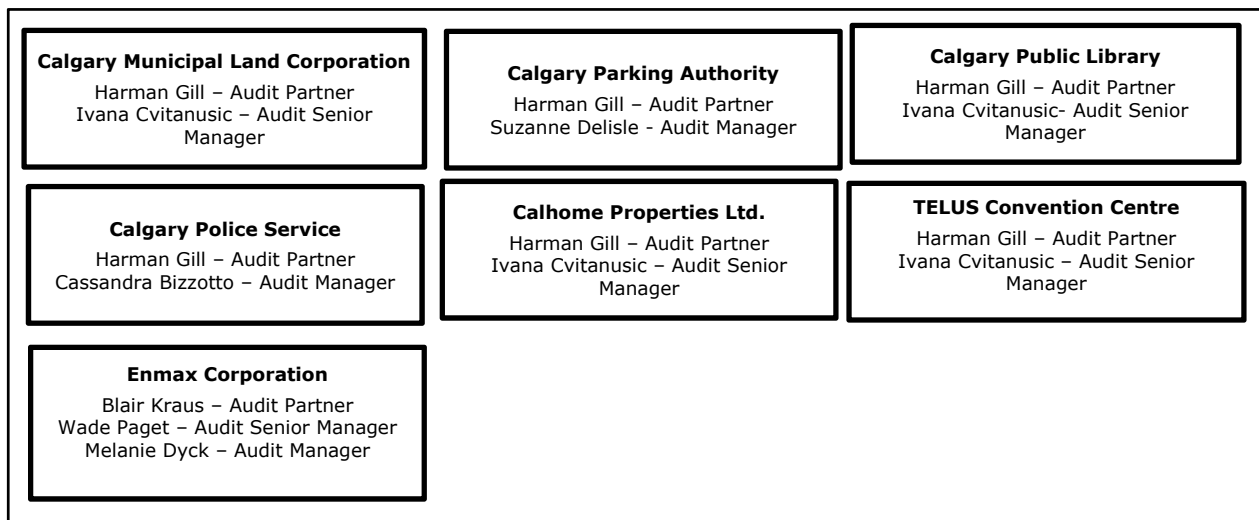
Our audit team members have been chosen for their experience and expertise. Trevor Nakka and/or Harman Gill will attend all Audit Committee meetings and will be accompanied by one or more additional engagement team members, depending on the meeting agenda.

The key members of the core audit engagement of The City and related parties are listed below:

The City of Calgary



Related Authorities



Appendix 6 – 2019 Summary audit timeline

This calendar indicates our various procedures and meetings as planned throughout the year:

	July	August	September	October	November	December	January	February	March	April	May	June
Procedures:												
Audit planning including scope, risks of fraud, and fees	•	•										
Audit procedures performed on areas of risks, areas of focus and significant and complex transactions		•			•				•			
August 2019: First interim visit. We will perform the following procedure during our first interim: <ul style="list-style-type: none"> • Audit planning • Design, implementation and operating effectiveness testing of internal controls 		•										
November 2019: Second interim visit. We will perform the following procedures during our second interim: <ul style="list-style-type: none"> • Substantive testing of expenditures, payroll and TCA additions • Assessment of new PSAS accounting standard 					•							
Final audit procedures related to the financial statements									•	•		
Communicate the status of our audit against our plan and any major difficulties encountered										•		
Review the results of our audit and provide audit report										•		
Review of the annual report to citizens										•		
Release of audit report										•		
Update to 2018 Management Recommendations Letter							•					
Present 2019 Management Recommendations Letter												•

Appendix 7 – Audit committee terms of reference

As the external auditors of The City we have the privilege of assisting the Committee in the fulfillment of the Committee’s terms of reference. The following table outlines our involvement in the fulfillment of specific terms of reference and any reports that we will issue following the completion of the 2019 audit.

Bylaw 48M2012	Description	Related Deloitte Involvement
Schedule B, 1(b)	Pre-approves all audit and non-audit services performed by the External Auditor.	All audit and non-audit services are presented to the Committee for pre-approval prior to the commencement of such work. Independence letter summarizing the fees for all services performed to be presented to the Committee at the April 2020 meeting.
Schedule B, 1(c)	Requires the External Auditor, as an expert in accounting and financial reporting, to express independent judgment about the appropriateness and acceptability of The City’s financial statements, in accordance with professional standards.	Communicated in the Year-end Audit Report to be presented by Deloitte to the Committee at the April 2020 meeting.
Schedule B, 1(d)	Prior to the commencement of the annual external financial audit, review the financial audit plan with the External Auditor.	2019 Audit Service Plan presented by Deloitte on July 23, 2019.
Schedule B, 1(e)	In conjunction with Administration’s presentation of the annual financial statements, receive and review the External Auditor’s annual audit report. This report is to be forwarded to Council for information.	Report of the Independent Auditor on the consolidated Financial Statements and Year-end Audit Report to be presented by Deloitte to the Committee at the April 2020 meeting.
Schedule B, 1(f)	Receives and reviews the External Auditor’s Administration letter(s), together with any administrative responses, and forward, either in full or in summary, to Council for information.	Management recommendations letter to be presented by Deloitte at the June 2020 meeting.
Schedule B, 1(g)	The Audit Committee meets with the External Auditor, in the absence of the Administration, at least quarterly.	In-camera sessions held with Deloitte at Committee meetings throughout 2019 and 2020.
Schedule C, 1(g)	Ensures that the combined work of the City Auditor and the External Auditor provides an appropriate level of audit coverage and is effectively coordinated.	2019 Audit Service Plan and audit work completed will be discussed in the Year-end Audit Report to be presented by Deloitte to the Committee at the April 2020 meeting.

Bylaw 48M2012	Description	Related Deloitte Involvement
2(a)	Oversees the integrity of, and reviews, the annual Financial Statements and recommends their approval to Council.	Report of the Independent Auditor on the consolidated Financial Statements and Year-end Audit report to be presented by Deloitte to the Committee at the April 2020 meeting.
2(b)	Reviews and discusses the City's compliance with financial reporting procedures with Administration, the City Auditor, and the External Auditor.	Report of the Independent Auditor on the consolidated Financial Statements and Year-end Audit Report to be presented by Deloitte to the Committee at the April 2020 meeting. Management recommendations letter to be presented by Deloitte at the June 2020 meeting.
2(c)	Engages Administration, the City Auditor and the External Auditor in candid discussions regarding issues that may alter judgment or affect the quality of the reporting process and search for insight into the results.	Participation and attendance by Deloitte at Committee meetings throughout the year.
2(d)	Reviews and discusses areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by Administration in consultation with the External Auditor, of the implications of those changes.	Appendix 8 of 2019 Audit Service Plan presented by Deloitte on July 23, 2019.
2(e)	Maintains open lines of communication with the External Auditor, City Auditor, and Administration.	Participation and attendance by Deloitte at Committee meetings throughout the year.
6(b)(i)	Review reports from Administration and from the City Auditor as to the adequacy and effectiveness of corporate policies such as legal matters, regulations, ethical principles, code of conduct, and conflict of interest.	Year-end Audit Report to be presented by Deloitte to the Committee at the April 2020 meeting includes our notification of whether any violations of this nature have come to our attention.

Appendix 8 – Upcoming financial reporting standards

Significant upcoming financial reporting standards and other regulatory requirements that are likely to impact The City's financial reporting for the current and future audits are listed below.

Standards	Effective Date
<i>Restructuring Transactions</i> , Section PS 3430	Fiscal years beginning on or after April 1, 2018.
<i>Foreign Currency Translation</i> , Section PS 2601	Fiscal years beginning on or after April 1, 2021 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 3450.
<i>Financial Instruments</i> , Section PS 3450	Fiscal years beginning on or after April 1, 2021 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 2601.
<i>Financial Statement Presentation</i> , Section PS 1201	When Sections PS 2601 and PS 3450 are adopted.
<i>Portfolio Investments</i> , Section PS 3041	When Sections PS 1201, PS 2601 and PS 3450 are adopted.
<i>Asset Retirement Obligations</i> , Section PS 3280	Fiscal years beginning on or after April 1, 2021. Earlier adoption is permitted.
<i>Revenue</i> , Section PS 3400	Fiscal years beginning on or after April 1, 2022. Earlier adoption is permitted.

Appendix 9 – Confirmation of Changes to MSA



Deloitte LLP
700, 850 - 2 Street SW
Calgary AB T2P 0R8
Canada

Tel: 403-267-1700
Fax: 403-213-5791
www.deloitte.ca

July 23, 2019

Private and confidential

The Audit Committee of The City of Calgary
Councillor Evan Woolley, Audit Committee Chair
The City of Calgary
PO Box 2100, Station M
Calgary AB T2P 2M5

Ms. Carla Male, Acting Chief Financial Officer
The City of Calgary
PO Box 2100, Station M
Calgary AB T2P 2M5

Re: Confirmation of Changes to master services agreement

Dear Sir/Madam:

This letter is issued to you further to the master services agreement ("MSA") between The City of Calgary ("The City") and Deloitte LLP ("Deloitte") dated July 25, 2018. This letter is subject to the terms of the MSA, the appendices to the MSA, the general business terms that form part of the MSA, all as may be updated or amended from time to time.

The purpose of this letter is to confirm our mutual understanding of the changes to the MSA which include an update of fees for fiscal 2019.

Changes to services

The MSA, and any confirmation letters subsequently issued under the MSA, set out the entities we will serve and the nature of the services and our fees.

For the current year, the chart below sets out the entities and the services we will provide to them in respect of their year ends. The chart also sets out an estimate of our professional fees. In addition to the professional fees, you will reimburse us for reasonable expenses and pay an administrative charge of 7% of professional fees, and applicable taxes.

Scope of services chart

Entity name	Year end	Scope	Fees
The City of Calgary	December 31, 2019	Consolidated Financial Statement Audit	\$272,000
The City of Calgary	December 31, 2019	Municipal Information Return	\$4,600
The City of Calgary	December 31, 2019	Newspaper Insert	Included in the Consolidated Financial Statement Audit fee
The City of Calgary	December 31, 2019	Funds Held in Trust	\$1,800
<i>Plus the following fees as described:</i>			
		PS 3260, <i>Liability for contaminated sites</i>	\$5,000
		Review of accounting transactions of P3 agreement – Stoney Transit Facility Project dated September 13, 2016	\$5,000
		Audit procedures on the related parties for consolidation purposes	\$18,500
		Adoption of PS3430, Restructuring Transactions	\$7,500
		Additional audits as requested by Administration and Audit Committee up to approval limit	\$25,000
Total			\$339,400

This confirmation letter (including any appendices and documents incorporated by reference) will continue in force for future services provided by us to you unless amended.

Please sign and return the attached copy of this letter to indicate your acknowledgement that it is in accordance with your understanding of the arrangements for our engagement for the December 31, 2019 fiscal year end.

Yours truly,

Chartered Professional Accountants

Enclosure

The services and terms set forth in and incorporated into this letter are acknowledged and approved by the Audit Committee of The City of Calgary:

Signature

Title

Date

The services and terms set forth in and incorporated into this letter are accepted and agreed to by The City of Calgary Administration:

Signature

Title

Date

Appendix 10 – Deloitte resources a click away

At Deloitte, we are devoted to excellence in the provision of professional services and advice, always focused on client service. We have developed a series of resources, which contain relevant and timely information.

<input type="checkbox"/> Canada's Best Managed Companies www.bestmanagedcompanies.ca	<ul style="list-style-type: none"> • Directors • CEO/CFO 	<p>The Canada's Best Managed Companies designation symbolizes Canadian corporate success: companies focused on their core vision, creating stakeholder value and excelling in the global economy.</p>
<input type="checkbox"/> Centre for financial reporting www.cfr.deloitte.ca	<ul style="list-style-type: none"> • Directors • CEO/CFO • Controller • Financial reporting team 	<p>Web site designed by Deloitte to provide the most comprehensive information on the web about financial reporting frameworks used in Canada.</p>
<input type="checkbox"/> Financial Reporting Insights www.iasplus.com/fri	<ul style="list-style-type: none"> • CFO • Controller • Financial reporting team 	<p>Monthly electronic communications that helps you to stay on top of standard-setting initiatives impacting financial reporting in Canada.</p>
<input type="checkbox"/> On the board's agenda	<ul style="list-style-type: none"> • Directors • CEO/CFO 	<p>Bi-monthly publication examining a key topic in detail, including the perspectives of a Deloitte professional with deep expertise in the subject matter as well as the views of an experienced external director.</p>
<input type="checkbox"/> State of change www.iasplus.com/StateOfChange	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	<p>Bi-monthly newsletter providing insights into key trends, developments, issues and challenges facing the not-for-profit sector in Canada, with a Deloitte point of view.</p>
<input type="checkbox"/> Deloitte Financial Reporting Update www.deloitte.com/ca/update	<ul style="list-style-type: none"> • CFO • VP Finance • Controller • Financial reporting team 	<p>Learning webcasts offered throughout the year featuring our professionals discussing critical issues that affect your business.</p>

Report on Revised Annual Audit Plan Approach

EXECUTIVE SUMMARY

This report highlights a new approach supporting the development of the Annual Audit Plan by The City Auditor's Office (CAO) that is aligned with the Four Year – One Calgary Budget Cycle. This new approach will provide internal efficiencies and continue to support a risk based approach that provides agility to include emerging risks and alignment with changes occurring in Administration.

RECOMMENDATION:

1. That the Audit Committee receive this report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Schedule C of Bylaw 48M2012 states that Audit Committee “reviews and approves the City Auditor's Office annual work plan and forwards to Council for information; the Audit Committee or Council may not remove items from the City Auditor's work plan but may direct items be added to the plan”. Schedule C of Bylaw 48M2012 also states that the City Auditor “must formally present the annual audit work plan to Council for information.”

BACKGROUND

The CAO is committed to delivering annual plans that fulfill our mission to provide independent and objective assurance, advisory and investigative services to add value to The City of Calgary and enhance public trust.

This assurance helps The City achieve its strategic, operational, financial, and compliance objectives. Overall, the audit and advisory work provided by the CAO acts as a catalyst for improving organizational effectiveness and efficiency by providing insight and recommendations on risk management effectiveness.

Every year the CAO prepares a risk based Annual Audit Plan for approval by Audit Committee and for information to Council. This annual plan determines the priorities of the internal audit activity and is consistent with the organization's goals while also being aligned with the Four Year – One Calgary Budget Cycle.

The CAO annual plan development process utilizes a risk based approach and is a critical deliverable to ensure audit resources are directed to the most significant areas of The City. This new annual planning approach is designed to improve internal efficiencies while still utilizing an appropriate risk based approach which is responsive to emerging risks while ensuring conformance to the International Standards for the Professional Practice of Internal Auditing. It has also been built to ensure the CAO can be agile in its resiliency against potential risks.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

Stakeholder Engagement, Research and Communication

Report on Revised Annual Audit Plan Approach

N/A

Strategic Alignment

The CAO assists 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.

Financial Capacity

Current and future operating budget:

N/A

Risk Assessment

The activities of the CAO serve to promote accountability, mitigate risk, and support an effective governance structure.

Providing transparency on the proposed annual planning approach for the City Auditor's Office (CAO) assists Audit Committee in their oversight role to understand how the CAO is meeting its mission to provide independent and objective assurance, advisory and investigative services that add value to The City of Calgary and enhance public trust.

REASON FOR RECOMMENDATION:

The Audit Committee reviews and approves the CAO annual work plan and ensures the combined work of the City Auditor and the External Auditor provides an appropriate level of audit coverage and is effectively coordinated (Bylaw 28M2012). As such, the Audit Committee should be informed on changes to the annual planning approach which could impact the annual work plan proposed.

ATTACHMENT

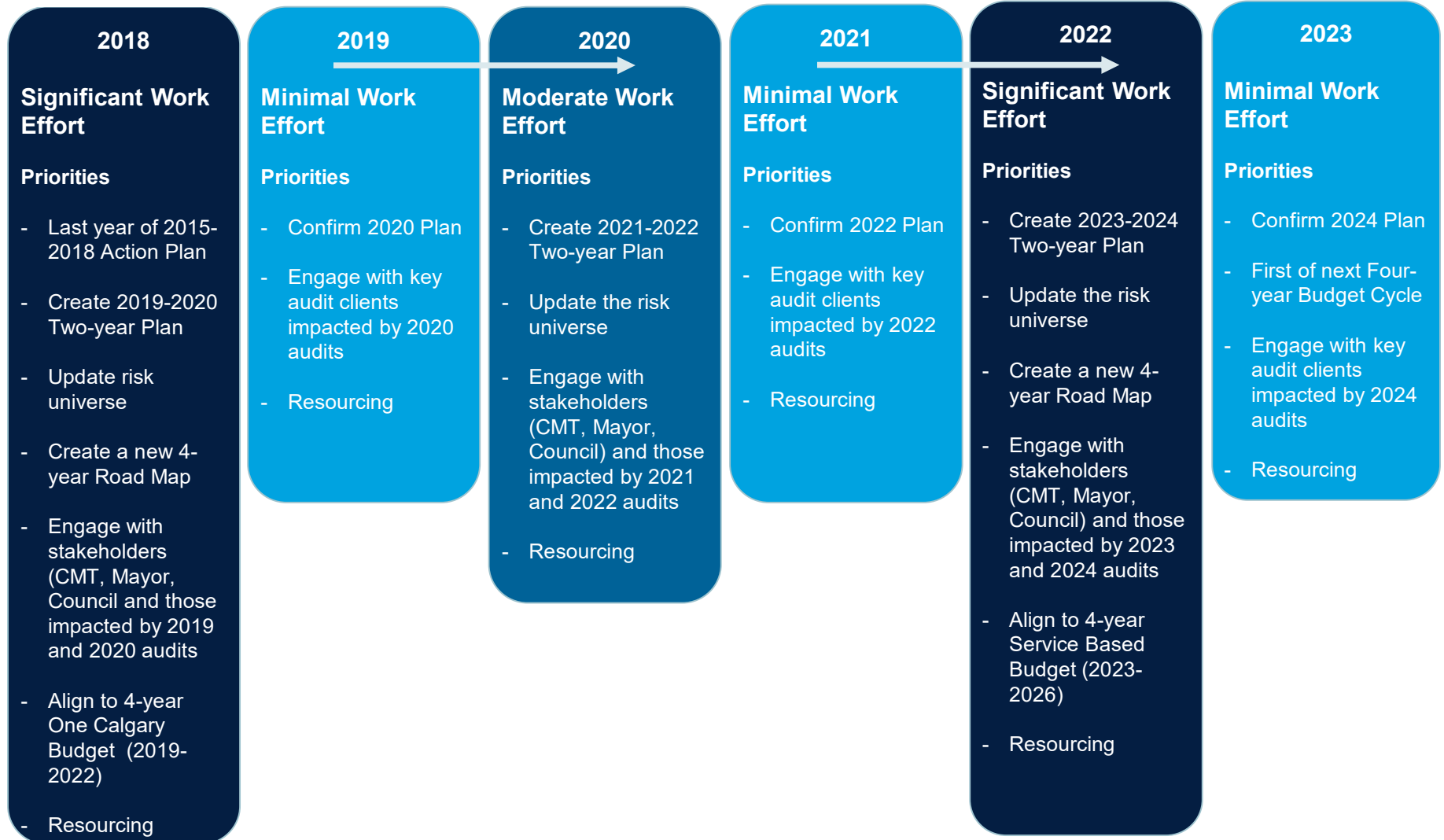
Report on Revised Annual Audit Plan Approach – AC2019-0899 ATT



Revised Annual Audit Plan Approach

(Aligns to the Four Year - One Calgary Budget Cycle)

City Auditor's Office



City Auditor's Office 2nd Quarter 2019 Report

EXECUTIVE SUMMARY

This report presents a summary of the activity of the City Auditor's Office during the period April 1, 2019 to June 30, 2019.

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

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

BACKGROUND

Quarterly reports are intended to support Audit Committee's oversight of the City Auditor's Office. To support this oversight, our quarterly reports are divided into three sections:

- A summary of key information on office activity during the past quarter;
- A narrative briefing to Audit Committee on a key initiative/responsibility; and
- A summary of our current status against the approved Audit Plan.

During 2nd Quarter 2019, the City Auditor's Office:

- Finalized three audits, completed the planning stage on one audit, and completed the fieldwork on three audits.
- Reviewed 26 recommendations and closed 18 recommendations (15 implemented as originally planned, and 3 closed where Administration accepted the residual risk). Eight recommendations required additional time and are in-progress.
- Received 30 new whistle-blower reports and closed 10 investigations.
- Provided advisory guidance to Supply Management, Infrastructure Calgary Steering Committee, and the Corporate Project Management Framework Committee.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

N/A

Stakeholder Engagement, Research and Communication

N/A

City Auditor's Office 2nd Quarter 2019 Report

Strategic Alignment

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

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

N/A

Current and Future Capital Budget:

N/A

Risk Assessment

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

REASON FOR RECOMMENDATIONS:

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

ATTACHMENT

City Auditor's Office 2nd Quarter 2019 Report - AC2019-0900 ATT



Calgary

City Auditor's Office

**2nd Quarter 2019 Report
April 1, 2019 – June 30, 2019**

July 23, 2019

**Katharine Palmer
City Auditor**

This page intentionally blank

1. Status Update

Key Performance Indicators				
Measure Area	Performance Indicator	Target	Q1 2019	Q2 2019
Efficiency	On Track to Annual Plan	Q1-30% Q2-58%	32%	55%
Effectiveness	Timely Implementation of Audit Rec.	65%	55%*	53%
Quality	Client Satisfaction	85% 2018-75%	91%	99%
Staff	Training Plan Achieved	90%	100%	100%

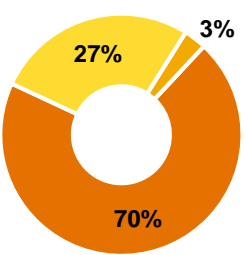
*Restated Q1 information

Budget				
	2019 Annual Budget	Q2 Cumulative Budget	Actual to Date	Variance
Salary	2,769	1,353	1,255	(98)
Tools & Tech.	120	84	81	(3)
Training	62	31	32	1
Other	114	47	43	(4)
Total	3,065	1,515	1,411	(104)

Whistle-blower Program Activity

New Reports (Q2 – 2019)

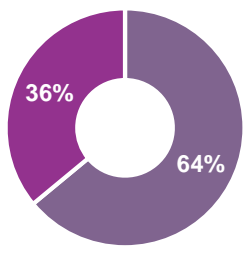
30



- 21 Employee
- 8 Non-employee
- 1 Undetermined

In-Progress Investigations (Q2 – 2019)

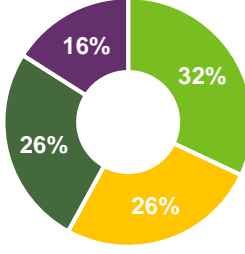
14



- 9 City Auditor's Office
- 5 WBP Triage Partners

Closed Investigations (Q2 – 2019)

10



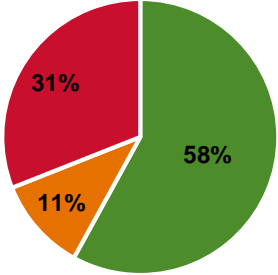
Recommendation Classifications*

- 6 Business Integrity
- 5 Health, Safety and Environment
- 5 HR, Diversity and Respectful Workplace
- 3 Misuse, Misappropriation of Assets

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

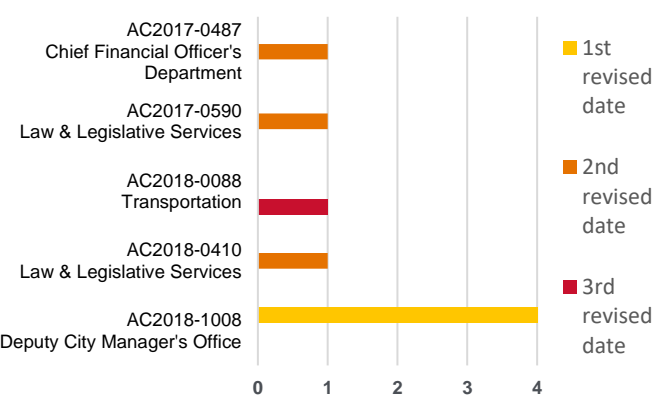
Recommendation Follow-up

Results of 26 Recommendations Due in Q2 (Q1 - 29)



- 15 Implemented (Q1 - 66%)
- 3 Closed - Mgmt. Accepts Risk (Q1 - 3%)
- 8 Required Additional Time (Q1 - 28%)

Outstanding Recommendations # of Revised Date Requests

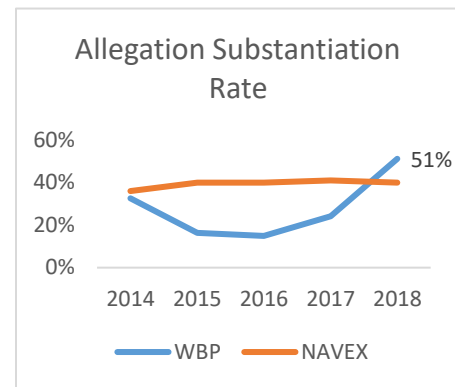


Recommendation ID	Department	1st revised date	2nd revised date	3rd revised date
AC2017-0487	Chief Financial Officer's Department	0	1	0
AC2017-0590	Law & Legislative Services	0	1	0
AC2018-0088	Transportation	0	0	1
AC2018-0410	Law & Legislative Services	0	1	0
AC2018-1008	Deputy City Manager's Office	0	0	4

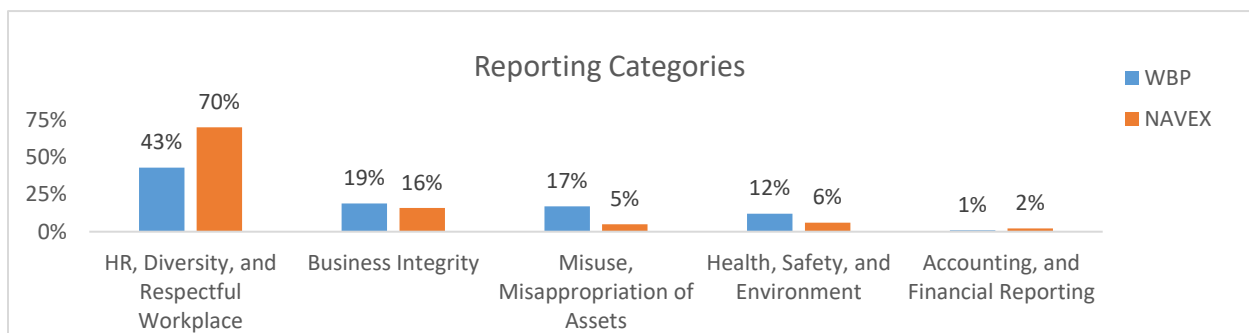
2. Initiative Briefing:

Ongoing benchmarking of the activity of the Whistle-blower Program (WBP) allows for continued evaluation of the program's performance, effectiveness, value, and identification of areas for improvement. Comparison of WBP utilization statistics indicates the WBP is operating in general alignment with aggregate hotline data compiled by NAVEX Global¹.

In 2018, the WBP concluded on 86 allegations of suspected waste and/or wrongdoing resulting in a substantiation rate of 51%, an increase from 2017 (24%) and a higher rate than the NAVEX average (42%). Awareness of The City policies and reporting options, higher quality concerns reported, and effective investigation processes contribute to a higher substantiation rate.

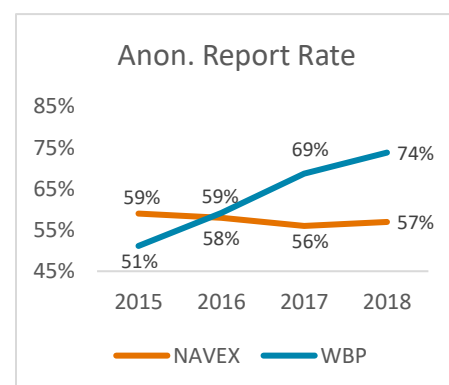


The tracking of categorized allegations can provide insight into the types of reports submitted, the effectiveness of messages provided by Administration and areas of The City where action may be required. In 2018, WBP data indicated that the nature and frequency of concerns reported remained consistent with those reported to other organizations.



The anonymous report rate has steadily increased in recent years and surpasses the rate reported by NAVEX. The availability of anonymous reporting is considered a best practice and a critical component of effective corporate governance. This upward trend is likely attributable to a combination of trust in the anonymity provided by the WBP, and fear of reprisal in utilizing other reporting methods.

Obtaining additional information from individuals reporting anonymously is essential for investigators, and follow-up rates are tracked to identify how many individuals remain involved throughout an investigation. Education and increased reporting using our online reporting tool has increased the frequency of two way communication with anonymous reporters. The follow-up rate for anonymous reports increased from 28% in 2017 to 44% in 2018, surpassing the NAVEX average of 20% for 2018 reports.



¹ The NAVEX Global 2019 Ethics & Compliance Hotline & Incident Management Benchmarking Report comprises data from over 1,032,953 individual reports disclosed by 2,738 organizations, with more than 10 reports, representing over 44 million employees globally.

2018/2019 Annual Audit Plan – Status as at June 30, 2019

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

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

2018/2019 Annual Audit Plan				
#	Title	Description	Report Target	Status
8	Calgary Fire - Inspections	An operational audit of the efficiency and effectiveness of Calgary Fire's inspection activities. Citizen Priority – A City of Safe and Inspiring Neighbourhoods	Q1, 2020	Not started
9	Roads – Pothole Remediation	An operational audit of the efficiency and effectiveness of pothole remediation. Citizen Priority – A City that Moves	Q1, 2020	Not started
10	Elections Follow-up	A follow-up audit to review action plans implemented in response to the 2017 Municipal Election Review (AC2018-0852). Citizen Priority – A Well-Run City	Q2, 2020	Not started