

Calgary



AC2021-0139
Presentation

CITY OF CALGARY
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JAN 28 2021

ITEM: #7.5 AC2021-0139

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CITY CLERK'S DEPARTMENT

ISC: Unrestricted

Control Environment Assessment Redesign Audit Committee Annual Status Update January 28, 2021



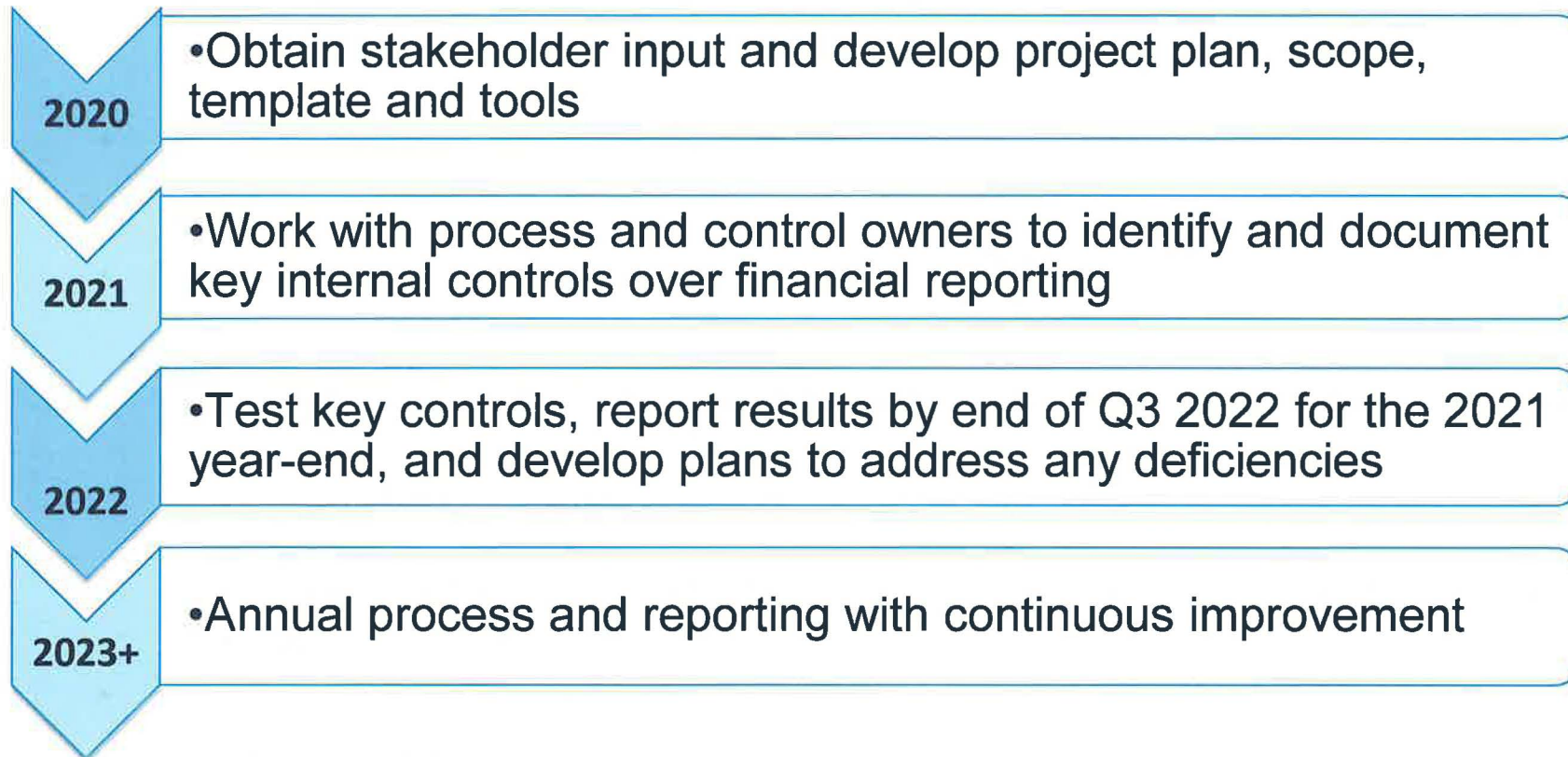
On January 24, 2020 Audit Committee Approved:

That the Audit Committee direct Administration to:

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



Approved Project Phases and Timelines



**Phase 1
Completed,
On
Schedule**

- Resource assumption is 0.75 FTE committed in Internal Control & Policy Coordination to lead this initiative
- Annual project status updates to Audit Committee



Financial Statement Risk Assessment

- All accounts were analyzed with the Financial Reporting team.
- Accounts were evaluated for inherent risk according to qualitative and quantitative factors:
 - Percent of Materiality
 - External Auditors' Risk Assessment
 - Extent of Judgement
 - Susceptibility to Error or Fraud
 - Volume of Activity
 - Manual vs. Automated Process
 - Complexity
 - History of Errors
- Factors were given a point value and summed to generate an account risk rating of either High, Medium, or Low.
- Accounts with a history of significant errors or assigned high-risk status by the external auditors were deemed High Risk.
- High Risk accounts were then grouped by business process.
- Meetings were held with each Finance Manager, the Director of Finance, the CFO, and the City Auditor's Office to review and validate the list of High Risk business processes and accounts.
- A meeting was held with Citizen Caltagirone to discuss report format best practices.



Business Processes in Scope

- Capital Deposits
- Debt
- Government Grants (to City)
- Banking
- Investments
- Land Inventory
- Landfill Closure Liabilities
- Payroll
- Procure-to-Pay Cycle
- Property Taxation
- Reserves
- Tangible Capital Assets
- Utilities Billing
- Investment Recovery

Standard Processes and Controls in Scope

- Finance Hiring and Training
- New Accounting Standards
- Period-End Processes
- Journal Entries
- General Ledger Controls
- Budgeting and Executive Reporting
- Annual Report Preparation



Scope Exclusions

- High-level entity controls are excluded
- Only internal controls over financial reporting and fraud are included, all others are excluded
- Only key internal controls over financial reporting and will be identified, not all internal controls over financial reporting.
 - *Key internal controls provide reasonable assurance that material errors in the financial statements will be prevented or detected in a timely manner.*
- Information Technology general internal controls are excluded, only key internal information technology application controls will be included to the extent they may materially impact financial reporting
- Consolidated entities' internal controls are excluded



Work to be Completed in 2021

Next Steps

- Process owners to document processes as defined in-scope for this project
- Internal Control & Policy Coordination to work with process and control owners to identify key internal controls over financial reporting
- Initial scoping of report formats and timelines as key internal controls are identified



Significant Risks to the Project	Risk Responses
<ul style="list-style-type: none"> • Finance staff do not have sufficient capacity in 2021 to work on this project due to competing corporate priorities such as: <ul style="list-style-type: none"> ○ Corporate Realignment ○ COVID Response and Reporting ○ SAVE Initiative ○ Internal Recoveries Implementation Project <p>Many of these corporate priorities did not exist when this project was approved.</p>	<ul style="list-style-type: none"> • Continue to monitor and report progress status to Director of Finance on a quarterly basis. • If required, escalate and develop options (i.e. reduce project scope and/or extend project timelines) for discussion and approval by Audit Committee.
<ul style="list-style-type: none"> • Limited process and internal controls documentation exists, resulting in additional resources and time required to provide guidance to areas and to create the documentation. 	<ul style="list-style-type: none"> • Leverage existing process narratives provided annually to the external auditors. • Develop templates to streamline documentation requirements and for consistency and ease of use. • Provide templates and guidance to process owners early in the year to allow for sufficient time to complete by end of Q4 2021.