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The Audit Committee of  
The City Council of The City of Calgary

## **Status update on assurance procedures**

Dear members of the Audit Committee of The City Council of The City of Calgary:

We are pleased to provide an update on the status of our assurance procedures for The City of Calgary ("The City") as communicated at our meeting on February 25, 2021:

- Audit of Off-Site Levy ("OSL") balances as at and for the years ended December 31, 2016, 2017, 2018, 2019 and 2020 in accordance with Canadian Auditing Standard 805, *Audit of specific elements, accounts or items of a financial statement line item* ("CAS 805").
- Specified auditing procedures on the Project Management Quality Assurance ("PMQA") process of The City of Calgary Corporate Project Management Framework ("CPMF") relating to capital projects for the years ending December 31, 2018, 2019 and 2020 in accordance with Section 9100, *Reports on the Results of Applying Specified Auditing Procedures to Financial Information Other than Financial Statements* ("Section 9100").

## **Audit of Off-Site Levy Balances**

- We have determined preliminary materiality for 2020 for each department: Water Resources, Transportation, Community Services and Police Services. As communicated in our audit plan, presented on February 25, 2021, materiality has been determined using our professional judgment and on the basis of ending OSL balances. We will report to you any uncorrected misstatements greater than our clearly trivial threshold as outlined in Appendix A. Deloitte notes that preliminary materiality for years ended 2016, 2017, 2018 and 2019 was provided in our April 20, 2021 meeting.
- We have completed planning activities for each year under audit including finalization of significant risks and planned audit procedures. These have been outlined in Appendix B.
- We have received various process flows prepared by Administration and have performed walkthroughs with the relevant business units. We have evaluated the design and implementation of relevant controls. Resulting from this work, we are discussing observations and recommendations with Administration and will communicate to the Audit Committee any significant control deficiencies identified at our next update.
- We have made significant progress in testing of collection of levies, allocation of investment income and usage of levies. As of the mailing of this document, Administration has provided the majority of our initial sample selection requests for each test of details for the years ended December 31, 2016, 2017, 2018 and 2019. We are following up with the various business units for additional information as required. Further, we have provided Administration with our sample selections for each test of details for the year ended December 31, 2020.
- We are in ongoing discussions with Administration with respect to availability of information comprising activity in pre-2016 opening off-site levy balances. Administration has provided internal schedules that demonstrate how levies collected prior to 2016 were spent and whether material amounts from earlier collection periods remain unspent at the end of 2016 as well as at the end of 2020, the latest period under audit. These schedules contain sufficient appropriate detail to

demonstrate collection of usage of levies. However; Administration has informed us that due to retention policies, as allowable under local laws governing data retention, records prior to 2013 have been purged and limited external sources of information are available. Our preliminary estimate is that this limitation relates to our ability to obtain external audit evidenced with respect to transactions amounting to approximately \$25,000,000 of off-site levy balances collected pre-2013 and unspent at the year ended December 31, 2020. Deloitte notes that levies were subject to audit during previous audits of the consolidated financial statements and no material misstatements were identified as a result of those audits based on consolidated materiality.

- We expect to present our report with respect to our substantive testing at the June 24, 2021 Audit Committee meeting. We are working with Administration on deliverables and timelines with respect to the letter of recommendations arising from completion of our procedures.
- Administration has been attentive to our requests and responsive to our audit queries. Throughout this period, we held regular discussions with Administration, and we found Administration to be supportive and transparent.

### **Specified Auditing Procedures on the PMQA Process**

- Our specified procedures are currently in progress. We have received and reviewed information (PMQA assessments including supporting documents) required to complete our procedures from the various business units for each of the years ended December 31, 2018, 2019 and 2020. We are in the process of discussing follow up questions and/or obtaining additional information as necessary based on our first review of the information with the applicable business units.
- Our specified procedures include a review of compliance with all PMQA standards as established by the CPMF. We will also review the PMQA Action Plan and follow up procedures / plans to determine how exceptions or variances identified were addressed by the business unit.
- We expect to present our report with respect to our specified audit procedures at the June 24, 2021 Audit Committee meeting. We are working with Administration on deliverables and timelines with respect to the letter of recommendations arising from completion of our procedures.
- We continue to hold regular discussions with Administration. Administration has been responsive and supportive in the completion of our procedures.

This communication is intended solely for the use of the members of the Audit Committee of The City Council of The City of Calgary, Administration and others within The City to assist them in understanding the status update of the assurance procedures and is not intended for any other purpose.

Yours truly,

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

Chartered Professional Accountants

## Appendix A

### Materiality by department for 2020

Year	2020			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Materiality	3,000,000	1,000,000	800,000	530,000
Performance materiality	2,400,000	880,000	640,000	424,000
Clearly trivial threshold	150,000	55,000	40,000	26,500

## Appendix B Risk Assessment

During our risk assessment, we identified significant audit risks that will require special audit consideration. These risks, together with our planned responses, are described below. The OSL balance is disclosed within the capital deposits balance in The City's annual consolidated statement of financial position, our procedures outlined below are designed to ensure that both the OSL balance and any related amounts recognized in the consolidated statement of operations and accumulated surplus are recognized and measured in accordance with underlying agreements, legislation and accounting standards.

### Off-site levies collected (Completeness, Rights and Obligations, Valuation and Allocation)

#### Audit risk

There is a risk that off-site levies collected are not recognized in the appropriate period, at the correct amount, and as the appropriate levy type by department (Water Resources, Transportation, and Community Services).

#### Our proposed audit response

- We will assess the design and implementation of relevant controls.
- We will obtain and read a sample of off-site levy agreements executed in each year under audit to ensure amounts levied are in accordance with the underlying legislation and agreements.
- We will test a sample of off-site levy payments collected in each respective year to ensure they are recognized and measured in accordance with the master development agreement and bylaw.
- We will agree a sample of off-site levies collected to corresponding invoices and bank statements to ensure they were recorded in the correct period and at the appropriate amount.
- We will review the unspent OSL balance for each year subject to audit relative to the OSL levies collected and related commitments on unspent balances in order to understand the relationship between amounts collected and amounts committed.

### Investment income earned (Completeness, Occurrence, Accuracy, Cut-off)

#### Audit risk

There is a risk that investment income earned for each respective year for the off-site levy balances is measured accurately is and is not recognized in the correct period

Furthermore, investments at The City are pooled and earn a blended rate of return. As a result, investment income for off-site levy balances is based on an allocation of the rate of return on all of the pooled investments. There is a risk that the blended rate of return is not supported by actual interest earned on investments.

#### Our proposed audit response

- We will assess the design and implementation of relevant controls.
- We will reperform the Administration's calculation of allocating investment income to off-site levy balances by year.
- We will assess, on a sample basis, the completeness and accuracy of underlying data inputs into Administration's investment income allocation schedule.
- We will test, on a sample basis, the underlying rate of return calculation by agreeing to the third-party investment manager statements, where available

## Density incentive program transfer (Completeness, Existence, Valuation and Allocation)

### Audit risk

There is a risk that the amounts of density incentive program recognized for each respective year are not complete and accurate.

The density incentive program was included in Bylaw 2M2016 to help incentivize redevelopment in established areas. When a development reaches a density at or above 185 equivalent persons per hectare, their levy rate is capped, and they do not need to pay for the additional units or square metres of development space. The difference is paid through the Established Area Redevelopment Incentive Budget which is funding through property tax.

### Our proposed audit response

- We will assess the design and implementation of relevant controls.
- We will test a sample of the development permits that qualified for the density incentive program in each year under audit and will recalculate the amounts recognized.
- We will test a sample of all development permits to determine if there are any additional development permits that should have qualified for the density incentive program but were not recognized as such.
- We will assess, on a sample basis, the completeness and accuracy of underlying data inputs into the density incentive program calculation.

## Off-site levies spent (Existence, Rights and Obligations, Valuation and Allocation)

### Audit risk

There is a risk that off-site levies utilized in each year under audit are not recognized in the appropriate period, at the correct amount, and as the appropriate levy type by department (Water Resources, Transportation, and Community Services).

Due to the nature of the infrastructure constructed by the Water Resources department, these expenditures are incurred prior to receiving the funds from developers through off-site levies. As such, these expenditures are typically funded by external debt which can then be repaid through off-site levies collected.

### Our proposed audit response

- We will assess the design and implementation of relevant controls.
- We will test a sample of off-site levies utilized in each respective year under audit to ensure they are recognized and measured in accordance with the master development agreement and bylaw.
- We will agree a sample of off-site levies utilized to corresponding invoices and bank statements to ensure they were recorded in the correct period and at the appropriate amount in order to substantiate that levies were spent on allowable expenses for the allowable project.
- For the Water Resources department, we will test a sample of the debt servicing costs to ensure that the underlying levy and usage of funds was incurred for the appropriate debt based on the bylaw.

The above noted significant risks have been identified through our preliminary planning discussions. As we perform additional audit procedures and continue our iterative planning and risk assessment activities, we may determine that changes are required to this risk assessment and outlined procedures.