

The City of Calgary Report to the Audit Committee on the 2016-2020 off-site levy audit

June 24, 2021

June 15, 2021

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

Report on audited annual off-site levy balances

Dear Audit Committee Members:

We are pleased to submit this report on the status of our audits of the off-site levy ("OSL") balances of The City of Calgary ("The City") for the 2016-2020 fiscal years. This report summarizes the scope of our audits, our findings to date and reviews certain other matters that we believe to be of interest to you. We are pleased to bring this important body of work to completion and are looking forward to discussing our results with you. We are continuing to work with Administration to complete the outstanding matters summarized on page 1 of this report. We have identified matters to be communicated with those charged with governance which will be communicated in our Administration recommendation letter to be presented by Deloitte at the July 22, 2021 meeting.

As agreed in our engagement letter dated March 24, 2021, we have performed audits of OSL balances of The City as at and for the years ended December 31, 2016 to December 31, 2020, in accordance with Canadian generally accepted auditing standards ("Canadian GAAS") and expect to issue our audit report thereon dated July 5, 2021.

Our audits have been conducted in accordance with the audit plan that was presented to Audit Committee at the meeting on February 25, 2021. As described further on page 3 of this report, as of the date of this letter, we have not identified any reportable instances of noncompliance with underlying agreements and bylaw 2M2016. Our audits indicate that OSL has been collected and recognized in accordance with underlying agreements and bylaw and has been spent in accordance with eligibility requirements of the underlying agreements and bylaw. Our audits have been performed largely on a substantive approach. As a result, we have identified improvement areas that we intend to discuss with you at the July 22, 2021 meeting.

This report is intended solely for the information and use of Audit Committee, Administration and others within The City and is not intended to be, and should not be, used by anyone other than these specified parties.

We, at Deloitte, work as one team to provide you with relevant business insights to assist you improving your current practices.

We look forward to discussing this report summarizing the outcome of our audits with you and answering any questions you may have.

Yours truly,



Chartered Professional Accountants

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Executive summary



Audit scope and terms of engagement

We have been asked to perform audits of The City's off-site levy ("OSL") balances in accordance with Canadian Public Sector Accounting Standards ("PSAS") as at and for the years ended December 31, 2016 to December 31, 2020. Our audits were conducted in accordance with Canadian generally accepted auditing standards ("Canadian GAAS").

The terms and conditions of our engagement are described in the engagement letter dated March 24, 2021. The fees for this engagement are expected to be \$750,000. To the extent there are changes to this, we will update you at our July 22, 2021 meeting.



Significant risks

- 1 Investment income earned
- 2 Off-site levies collected
- 3 Density incentive program transfer
- 4 Off-site levies spent



Materiality

Materiality levels are consistent with those communicated during the April 12, 2021 and May 13, 2021 meetings. See Appendix 2.



Outstanding Matters & Next Steps

Receipt of audit confirmations related to opening balances from 2013 to 2015	Receipt of signed Administration representation letter
Approval of the OSL schedule by City Council at the recommendation of the Audit Committee	Receipt of evidence to complete minor documentation items including certain agreements and variances
Final audit partner review of select working papers	Completion of the Engagement Quality Control review
Review of the final version of the OSL schedule	Completion of the Special Partner review



Highlights

Evaluated a high volume of transactions on a sampling basis	Examined a significant portion of developer agreements on a sampling basis	Examined a majority of eligible projects on a sampling basis
Invested over 300 hours in detailed process reviews and discussion	Access provided to FCSM and iNovah to efficiently gather evidence	Updated timelines to account for the gathering of information from third parties
Cross-functional collaboration between Calgary Approvals Coordination, Finance including, Portfolio Finance, Corporate Billings and Accounts Receivables, Treasury, Financial Reporting and Business Group teams		



Going Concern

Administration has completed its assessment of the ability of The City to continue as a going concern and in making its assessment did not identify any material uncertainties related to events or conditions that may cast significant doubt upon The City's ability to continue as a going concern. We agree with Administration's assessment.



Results

As a result of the limitations related to the retention of available records in accordance with local statutes and laws, we expect to modify our audit report for a scope limitation to read as follows: "As a result of The City's documentation retention policies, certain documentation relating to periods prior to 2013 have been destroyed. Accordingly, our verification of off-site levies collected in periods prior to 2013 was limited to the amounts recorded in the internal records of The City. Therefore, we were not able to determine whether any adjustments might be necessary to \$27,324,745 of off-site levies collected prior to 2013 and unspent as at December 31, 2020. Our audit opinion on off-site levies for the year ended December 31, 2020 was modified accordingly because of the possible effects of this limitation in scope."

A draft version of our auditor's report is included in appendix 4. No other restrictions have been placed on the scope of our audits.

Significant audit risks and events

The significant audit risks identified as part of our risk assessment, together with our planned responses and conclusions, are described below.

Significant risk dashboard

Legend



Significant level of Administration judgement involved



Minimal/No Administration judgement involved


D+I: Planned testing of the design and implementation of key controls

OE: Planned testing of the operating effectiveness of key controls


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

Fraud Risk	Control Testing Planned	Level of Administration judgement	Specialist, Expert or Innovation Involvement
NO	D+I		N/A
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> There is a risk that investment income earned for each respective year for the OSL balances is not measured accurately 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 OSL balances is based on an allocation of the rate of return on all the pooled investments. There is a risk that the blended rate of return is not supported by the actual interest earned on investments. 		<ul style="list-style-type: none"> We reperformed Administration's calculation of allocating investment income to OSL balances by year. We assessed, on a sample basis, the completeness and accuracy of underlying data inputs into Administration's investment income schedule. We tested, on a sample basis, the underlying rate of return calculation by agreeing to the third-party investment manager statements, where available. While we concluded that the specific internal controls we evaluated as part of risk assessment procedures were designed and implemented effectively, we noted areas of improvement that we will discuss at our next meeting. While we identified a number of trivial differences in our testing, none resulted in reportable misstatements. We obtained sufficient audit evidence to conclude that there were no material misstatements. 	


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

Fraud Risk	Control Testing Planned	Level of Administration judgement	Specialist, Expert or Innovation Involvement
NO	D+I and OE		N/A
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> There is a risk that OSL collected are not recognized in the appropriate period, at the correct amount and as the appropriate levy type by department (Water Resources, Transportation, Police and Community Services). 		<ul style="list-style-type: none"> We obtained and read a sample of OSL agreements executed in each year under audit to ensure amounts levied were in accordance with the underlying legislation and agreements. We tested a sample of OSL payments collected in each respective year to ensure they were recognized and measured in accordance with the master development agreement and bylaw. We agreed a sample of OSL collected to corresponding invoices and bank statements to ensure they were recorded in the correct period and at the appropriate amount. We sent out audit confirmations to a sample of developers to confirm payments where payment support could not be obtained. Where payment could not be obtained, we performed alternative procedures and ensured that the invoices were paid per reviews of detailed accounts receivable listings. We reviewed the unspent OSL balance for each year subject to audit relative to the OSL levies collected and related commitments on unspent balances to understand the relationship between amounts collected and amounts committed. We tested a sample of the adjustments made between the summary schedules and financial statement balances to ensure they were accurate and complete. We agreed a sample of internal OSL collections and non-developer deposits to the corresponding developer agreement, invoice and payment. While we concluded that the specific internal controls we evaluated as part of risk assessment procedures were designed and implemented effectively, we noted areas of improvement that we will discuss at our next meeting. As noted in Appendix 6, we identified a misstatement related to underbilling of certain OSL amounts. While we identified a number of trivial differences in our testing, except for the item above, none resulted in reportable misstatements. We obtained sufficient audit evidence to conclude that there were no material misstatements. 	

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

Fraud Risk	Control Testing Planned	Level of Administration judgement	Specialist, Expert or Innovation Involvement
NO	D+I		N/A
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> 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 285 equivalent persons per hectare, their levy is capped and they do not need to pay for the additional units or square meters of development space. The difference is paid through Established Area Redevelopment Incentive Budget, which is funded through property tax. 		<ul style="list-style-type: none"> We tested a sample of the development permits that qualified for the density incentive program in each year under audit and recalculated the amounts recognized. We tested a sample of all development permits to determine if there were any additional development permits that should have qualified for the density incentive program but were not recognized as such. We assessed, on a sample basis, the completeness and accuracy of underlying data inputs into the density incentive program calculator. While we concluded that the specific internal controls we evaluated as part of risk assessment procedures were designed and implemented effectively, we noted areas of improvement that we will discuss at our next meeting. We obtained sufficient audit evidence to conclude that there were no material misstatements. 	

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

Fraud Risk	Control Testing Planned	Level of management judgement	Specialist, Expert or Innovation Involvement
NO	D+I		N/A
Analysis of risk		Audit Response and Results	
<ul style="list-style-type: none"> There is a risk that OSL 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, Police 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 OSL. As such, these expenditures are typically funded by external debt which can then be repaid through OSL collected. 		<ul style="list-style-type: none"> We tested a sample of OSL utilized in each respective year under audit to ensure they were recognized and measured in accordance with the master development agreement and bylaw. We agreed a sample of OSL utilized to corresponding invoices and bank statements to ensure they were recorded in the correct period and at the appropriate amount to substantiate that levies were spent on allowable expenses for allowable projects. For the Water Resources department, we tested 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. We tested a sample of the adjustments made between the summary schedules and financial statement balances to ensure they are accurate and complete. We agreed a sample of internal OSL and non-developer deposits utilized to the corresponding invoices. While we concluded that the specific internal controls we evaluated as part of risk assessment procedures were designed and implemented effectively, we noted areas of improvement that we will discuss at our next meeting. While we identified a number of trivial differences in our testing, none resulted in reportable misstatements. We obtained sufficient audit evidence to conclude that there were no material misstatements. 	

Significant events

Limitations in availability of records

Impact on our 2016-2020 audits

Due to record retention policies, The City informed us that records prior to 2013 would be limited. As a result, we were required to modify the nature and extent of our procedures, and determine what scope limitations, if any, presented themselves in our audits.

- The City was granted the right to collect certain levies based on the 1995 Municipal Government Act ("MGA"); however, The City did not enact bylaws to collect these levies until the 2000's. In 2000, The City introduced a recreation levy of \$2000/hectare in accordance with standard development agreement with Urban Development Institute (currently Building Industry and Land Development Association). Since that time, a number of amendments were made to the MGA as well as The City bylaws establishing new levies and regulations. In 2003 the MGA was amended requiring interest income earned from the investment of off-site levies collected for water, sanitary sewage, storm sewer drainage facilities and land required for these services to be accounted for separately from other levies and only be used for the purpose for which the original levy was collected. In 2004, The City enacted an off-site levy bylaw 34M2004 which did not require investment income earned on these balances to be restricted. The current bylaw, 2M2016, enacted by The City came into effect in 2016 and was modified in 2019 to include specific restrictions related to investment income.
- Administration prepared a waterfall analysis to demonstrate levies collected and spent by year, dating back to 2000 by each department. These internal schedules were consistent with schedules prepared and audited as part of our consolidated audit of The City.
- We performed analysis to determine the value of levies collected prior to 2013 which remained unspent at December 31, 2020 to understand the quantum of balances that may be subject to limitations with respect to sufficient, appropriate external audit evidence.
- We determined that to the extent levies were spent on eligible projects, this evidence was sufficient to conclude on the completeness of levies collected; however, where levies were not spent as of December 31, 2020, we determined that we could not obtain sufficient, appropriate audit evidence to conclude on the appropriateness of the recorded balances, and we determined that a scope limitation exists with respect to \$27,324,745 of levies related to Community Services and Police. This amount is recorded as a liability within capital deposits of The City's consolidated financial statements and forms part of opening balance at January 1, 2016, the earliest period under audit of this engagement.

Additional procedures performed resulting from risk assessment and further understanding of processes

Audit response

- We examined a sample of projects where there was a resulting surplus or deficit in available OSL funding related to the project, as originally allocated, to ensure that any remaining funds, or fund deficits, are recognized and measured in accordance with the Master Development Agreement and bylaw. We found no issues with respect to how funds were allocated and approved.
- We evaluated operating effectiveness of certain key controls over collections by reviewing a sample of invoices issued and ensuring the total levy amount billed was aligned with the development agreement.
- We evaluated operating effectiveness of certain key controls over collections by reviewing the Master Development Agreement, Interim Indemnity Agreement and Special Clauses Agreement to ensure they are in accordance with the bylaw and are appropriately approved.
- We concluded that the internal controls were operating effectively.
- We obtained sufficient audit evidence to conclude that there were no material misstatements.

Significant accounting policies, judgements and estimates

The accounting policies described below are those that are most important and representative of The City's financial condition and financial performance.

In the course of our audits of the OSL balances, we considered the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability and understandability of the information included in the OSL balances.

In our judgement, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under PSAS and are appropriate to the particular circumstances of The City.

Accounting estimates are an integral part of the OSL balances prepared by Administration and are based on Administration's current judgements. These judgements are normally based on knowledge and experience about past and current events, assumptions about future events and interpretations of the financial reporting standards.

During the years ended December 31, 2016 to December 31, 2020, Administration advised us that there were no significant changes in accounting estimates or in judgements relating to the application of the accounting policies, except for those related to allocation and recognition of investment income as described in Note 2.

In our judgement, the significant accounting estimates made by management are, in all material respects, free of possible management bias and of material misstatement. The disclosure in the OSL balances around estimation uncertainty is in accordance with PSAS and is appropriate to the particular circumstances of The City.

Appendix 1 – Communication requirements and other reportable matters

The table below summarizes our communication requirements under Canadian GAAS and other communications that we believe would help us achieve an effective audit.

Required communication	Refer to this report or document described below
Audit Service Plan	
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the OSL balances.	Engagement letter dated March 24, 2021.
2. An overview of the overall audit strategy, addressing: <ul style="list-style-type: none"> a. Timing of the audits. 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. 	Audit plan communicated on February 25, 2021.
3. Significant transactions outside of the normal course of business, including related party transactions.	Not applicable.
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.	<p>We believe adequate internal controls exist to sufficiently mitigate the risk of Administration override of controls at The City.</p> <p>Those charged with governance exercise oversight over Administration's process for identification and response to the risk of fraud by establishing and enforcing a code of conduct, establishing committees to govern various aspects of operations and engaging frequently with key Administration personnel.</p>
5. Any known suspected or alleged fraud affecting The City.	We are not aware of any actual or suspected fraudulent events.

Required communication	Refer to this report or document described below
6. Whether The City is in compliance with laws and regulations .	<p>Administration is responsible for ensuring that The City's operations are conducted in accordance with the laws and regulations applicable to The City in the jurisdictions in which it operates. The responsibility for preventing and detecting noncompliance rests with Administration. The auditor is not and cannot be held responsible for preventing noncompliance with laws and regulations.</p> <p>Our limited procedures did not identify any areas of material noncompliance with laws and regulations by The City with respect to OSL.</p>
Year End Communication	
7. Fraud or possible fraud identified through the audit process.	We are not aware of any fraudulent events.
8. Significant accounting policies, practices, unusual transactions and our related conclusions.	Significant accounting policies, judgements and estimates section of this report.
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.	Significant accounting policies, judgements and estimates section of this report.
10. Matters related to going concern.	Executive summary section of this report.
11. Consultation with other accountants.	Administration has informed us that The City has not consulted with other accountants about auditing or accounting matters.
12. Administration judgements and accounting estimates.	Significant accounting policies, judgements and estimates section of this report.
13. Significant difficulties, if any, encountered during the audits.	During the course of our audits, we did not encounter any significant difficulties in dealing with Administration related to the performance of the audits.
15. Material written communications between Administration and us, including Administration representation letters.	Administration representation letter.
16. Circumstances that affect the form and the content of the auditor's report.	Draft auditor's report.
17. Other matters that are significant to the oversight of the financial reporting process.	No other matters to report.
18. Modifications to our opinion.	Executive summary section of this report.
19. Other significant matters discussed with management.	Significant audit risks and events section of this report.
20. Matters involving noncompliance with laws and regulations that come to our attention, unless prohibited by law or regulation, including illegal or possibly illegal acts that come to our attention.	Our limited procedures did not identify any areas of material noncompliance with laws and regulations by The City, that are not otherwise prohibited to be disclosed by law or regulation.
21. Litigation.	No litigation matters to report.

Required communication	Refer to this report or document described below
22. Significant deficiencies in internal control, if any, identified by us in the conduct of the audits of the OSL balances.	No deficiencies to report. We have identified certain matters that we will bring to your attention at the July 22, 2021 meeting.
23. Uncorrected misstatements and disclosure items.	In accordance with Canadian GAAS, we request that all misstatements be corrected. No uncorrected misstatements and uncorrected disclosure to report.
24. Changes to the audit plan.	The audits were conducted in accordance with our audit plan, which was communicated to the Audit Committee. We confirm that there have been no amendments to the audit scope and approach communicated in the audit plan.
25. Concerns regarding management competence and integrity.	We have not determined any concerns regarding Administration competence and integrity.
26. Disagreements with Administration.	In the course of our audits, we did not encounter any disagreements with Administration.
27. Post-balance sheet events.	At the date of finalizing this report, we are not aware of any significant post balance sheet events.
28. Reliance on service organizations.	Not applicable.
29. Limitations when sending confirmations.	Not applicable.
30. Other significant matters arising from the audits.	No other significant matters to report.

Appendix 2 – Summary of materiality by business group

Year	2016			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Materiality	2,200,000	3,300,000	1,200,000	420,000
Performance materiality	1,760,000	2,640,000	960,000	336,000
Clearly trivial threshold	110,000	165,000	60,000	21,000

Year	2017			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Materiality	2,200,000	2,900,000	930,000	440,000
Performance materiality	1,760,000	2,320,000	744,000	352,000
Clearly trivial threshold	110,000	145,000	46,500	22,000

Year	2018			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Materiality	2,000,000	1,600,000	1,400,000	440,000
Performance materiality	1,600,000	1,280,000	1,120,000	352,000
Clearly trivial threshold	100,000	80,000	70,000	22,000

Year	2019			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Materiality	2,100,000	1,400,000	870,000	400,000
Performance materiality	1,680,000	1,120,000	696,000	320,000
Clearly trivial threshold	105,000	70,000	43,500	20,000

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	26,000

Appendix 3 – Audit Committee terms of reference

As the external auditors of The City, we have the privilege of assisting in the fulfillment of your responsibility to follow the Terms of Reference for The City of Calgary's Audit Committee contained in the Audit Committee bylaw 33M2020. The following table outlines our involvement in the fulfillment of specific terms of reference and any reports that we have issued that assist in this process.

Bylaw 33M2020	Description	Related Deloitte Involvement
5(f)	<p>Pre-approve all audit and non-audit services performed by the External Auditor and further provide that:</p> <p>(A) The Chair can pre-approve additional audit or non-audit services performed by the External Auditor, up to \$50,000 total annually and must report those approvals to the Audit Committee, and</p> <p>(B) On an annual basis, total fees for non-audit services performed by the External Auditor shall not exceed the total audit fees approved for The City of Calgary consolidated audit, including all subsidiary and related entity audits.</p>	All audit and non-audit services are presented to the Audit Committee for pre-approval prior to the commencement of such work. Fee information included in the Audit Service Plan presented by Deloitte on February 25, 2021.
Schedule A, 2(a)	Reviews and oversees the integrity of the Annual Financial Statements and recommends their approval to Council.	Report of the Independent Auditor on the 2016-2020 OSL balances to be presented by Deloitte to the Audit Committee at the June 24, 2021 meeting.
Schedule A, 2(b)	Reviews and discusses the City's compliance with financial reporting procedures with Administration and the External Auditor.	<p>Report of the Independent Auditor on the 2016-2020 OSL balances to be presented by Deloitte to the Audit Committee at the June 24, 2021 meeting.</p> <p>Letter of recommendations to be presented by Deloitte at the July 22, 2021 meeting.</p>
Schedule A, 2(c)	Engages Administration and the External Auditor in candid discussions regarding issues that may alter judgement or affect the quality of the reporting process and search for insight into the results.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
Schedule A, 2(d)	In consultation with the Chief Financial Officer and External Auditor, review and discuss significant new accounting standards and financial reporting developments to understand any material impact on financial results. A detailed analysis, prepared by Administration, on the implications of any changes, as well as the progress made in the adoption of new accounting standards, may be requested.	Audit Service Plan presented by Deloitte on February 25, 2021.
Schedule A, 2(e)	Maintains open lines of communication with the External Auditor and Administration.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.

Bylaw 33M2020	Description	Related Deloitte Involvement
Schedule B, 1(c)	Requires the External Auditor to express an opinion on The City's financial statements, in accordance with professional standards.	Communicated in the OSL Audit Report to be presented by Deloitte to the Audit Committee at the June 24, 2021 meeting.
Schedule B, 1(a)	Prior to the commencement of the annual external financial audit, reviews the audit plan and estimated audit fees with the External Auditor and discusses the timing and extent of audit procedures, materiality, significant audit risks and areas of audit focus and overall audit strategy. This report is to be forwarded to Council for information.	Audit service plan presented by Deloitte on February 25, 2021.
Schedule B, 1(b)	In conjunction with Administration's presentation of the annual financial statements, receives and reviews the External Auditor's annual audit report. This report is to be forwarded to Council for information.	Report of the Independent Auditor on the 2016-2020 OSL balances to be presented by Deloitte to the Audit Committee at the June 24, 2021 meeting.
Schedule B, 1(d)	Receives and reviews the External Auditor's Management Letter(s), and reviews Administration responses, and forwards, either in full or in summary, to Council for information. Through query, confirm that any recommendations made by the External Auditor are addressed by Administration in a timely manner.	Administration recommendation letter to be presented by Deloitte at the July 22, 2021 meeting.
Schedule B, 1(e)	Must meet with the External Auditor, in the absence of Administration, at least quarterly.	Closed meetings held with Deloitte at Audit Committee meetings throughout 2020 and 2021.
Schedule B, 1(h)	Receives and reviews the External Auditor's annual independence letter. Through query, confirm the process by which the External Auditor maintains their independence and objectivity.	Communicated in the OSL Audit Report to be presented by Deloitte to the Audit Committee at the June 24, 2021 meeting.

Appendix 4 – Draft independent auditor's report

We have included an illustrative version of our auditor's report below. This report assumes we have completed audits of the opening balances in accordance with CAS 510 and does not contemplate the inability to test the opening balances due to statutory or legal data retention policies and requirements.

Independent Auditor's Report

To His Worship Mayor Naheed Nenshi and Members of City Council
The City of Calgary

Opinion

We have audited the off-site levy schedule of The City of Calgary ("The City") as at December 31, 2016, 2017, 2018, 2019 and 2020 and notes to the schedule, including a summary of significant accounting policies (collectively referred to as the "schedule").

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying schedule of The City as at December 31, 2016, 2017, 2018, 2019 and 2020 is prepared, in all material respects, in accordance with Canadian public sector accounting standards ("PSAS").

Basis for Qualified Opinion

As a result of The City's documentation retention policies, certain documentation relating to periods prior to 2013 have been destroyed. Accordingly, our verification of off-site levies collected in periods prior to 2013 was limited to the amounts recorded in the internal records of The City. Therefore, we were not able to determine whether any adjustments might be necessary to \$27,324,745 of off-site levies collected prior to 2013 and unspent as at December 31, 2020. Our audit opinion on off-site levies for the year ended December 31, 2020 was modified accordingly because of the possible effects of this limitation in scope.

We conducted our audits 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 Schedule* section of our report. We are independent of The City in accordance with the ethical requirements that are relevant to our audits of the schedule 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 qualified opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to Note 1 to the schedule, which describes the basis of accounting. The schedule is prepared to assist The City to comply with the requirements of Bylaw 2M2016. As a result, the schedule may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of City Administration and Those Charged with Governance for the Schedule

City Administration is responsible for the preparation of the schedule in accordance with the PSAS, and for such internal control as City Administration determines is necessary to enable the preparation of the schedule that is free from material misstatement, whether due to fraud or error.

In preparing the schedule, City Administration is responsible for assessing The City'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 City Administration either intends to liquidate The City or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing The City's financial reporting process.

Auditor's Responsibilities for the Audits of the Schedule

Our objectives are to obtain reasonable assurance about whether the schedule is 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 this schedule.

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

- Identify and assess the risks of material misstatement of the schedule, 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 City's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by City Administration.
- Conclude on the appropriateness of City Administration'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 City'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 schedule 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 City to cease to continue as a going concern.

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

Chartered Professional Accountants
July 5, 2021

Appendix 5 – Draft independence

July 5, 2021

Private and confidential

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

Dear Audit Committee members:

We have been engaged to audit Off-site levy balances of The City of Calgary (“The City”) as at and for the years ended December 31, 2016 to December 31, 2020.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between The City, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

In determining which relationships to report, we have considered relevant rules and related interpretations prescribed by the appropriate provincial regulator/ordre and applicable legislation, covering such matters as:

- a) Holding a financial interest, either directly or indirectly, in a client.
- b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client.
- c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client.
- d) Economic dependence on a client.
- e) Provision of services in addition to the audit engagement.

We confirm to you that the engagement team and others in the firm as appropriate, the firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since April 26, 2021, the date of our last letter.

We are not aware of any relationships between the Member Firms of Deloitte Touche Tohmatsu Limited and their respective affiliates (collectively, the “Deloitte Entities”) and The City and its affiliates, or persons in financial reporting oversight roles at the Company and its affiliates, that, in our professional judgment, may reasonably be thought to bear on independence, that have occurred from April 27, 2021 to July 5, 2021.

We hereby confirm that we are independent with respect to The City in accordance with the Rules of Professional Conduct of the applicable Chartered Professional Accountants of Alberta as of July 5, 2021.

This letter is intended solely for the information and use of the audit committee, the board of directors, management and others within The City and is not intended to be and should not be used for any other purposes.

Yours truly,

Chartered Professional Accountants

Appendix 6 – Draft Administration representation letter

[The City letterhead]

July 5, 2021

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

Dear Sirs/Mesdames:

Subject: The off-site levy schedule of The City of Calgary for the years ended December 31, 2016, 2017, 2018, 2019 and 2020

This representation letter is provided in connection with the audit by Deloitte LLP (“Deloitte” or “you”) of the off-site levy schedule of The City of Calgary (“The City” or “we” or “us”) for the years ended December 31, 2016, 2017, 2018, 2019 and 2020, and a summary of significant accounting policies and other explanatory information (the “Schedule”) for the purpose of expressing an opinion as to whether the Schedule is prepared, in all material respects, the financial information of the off-site levy, and applicable spend over the audit period, of The City in accordance with Canadian Public Sector Accounting Standards (“PSAS”) as disclosed in Note 2 of the Schedule.

Certain representations in this letter are described as being limited to matters that are material. Items are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial information.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Schedule

1. We have fulfilled our responsibilities as set out in the terms of the engagement letter between The City and Deloitte dated March 24, 2021 for the preparation of the Schedule in accordance with PSAS. In particular, the Schedule presents the financial information of the off-site levies of The City as at December 31, 2016, 2017, 2018, 2019 and 2020, and for the years then ended in accordance with PSAS.

2. Significant assumptions used in making estimates, including those measured at fair value, are reasonable.

In preparing the Schedule in accordance with the PSAS, City Administration makes judgments and assumptions about the future and uses estimates. The completeness and appropriateness of the disclosures related to estimates are in accordance with the PSAS. The City has appropriately disclosed in the Schedule the nature of measurement uncertainties that are material, including all estimates where it is reasonably possible that the estimate will change in the near term and the effect of the change could be material to the Schedule.

The measurement methods, including the related assumptions and models, used in determining the estimates, including fair value, were appropriate, reasonable and consistently applied in accordance with PSAS and appropriately reflect Administration's intent and ability to carry out specific courses of action on behalf of the entity. No events have occurred subsequent to December 31, 2016, 2017, 2018, 2019 and 2020 that require adjustment to the estimates and disclosures included in the Schedule.

There are no changes in City Administration's method of determining significant estimates in the current year.

3. We have determined that the Schedule is complete as of July 5, 2021, as this is the date when there are no changes to the Schedule (including disclosures) planned or expected. The Schedule has been approved in accordance with our process to finalize financial statements.
4. We have completed our review of events after December 31, 2020 and up to the date of this letter.
5. The Schedule is free of material errors and omissions.
6. We believe that the effects of any uncorrected misstatements pertaining to the current and comparative prior periods presented, are immaterial, both individually and in the aggregate, to the Schedule taken as a whole. A list of the uncorrected misstatements aggregated by you is attached in Appendix A.

Internal controls

7. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
8. We have disclosed to you all known deficiencies in the design or operation of internal control over financial reporting identified as part of our evaluation, including separately disclosing to you all such deficiencies that we believe to be significant deficiencies in internal control over financial reporting.

Information provided

9. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation of the Schedule, such as records, documentation and other matters;
 - b. All relevant information as well as additional information that you have requested from us for the purpose of the audit;
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence; and
 - d. All minutes of the meetings of shareholder, directors and committees of directors, or summaries of actions of recent meetings for which minutes have not yet been prepared. All significant board and committee actions are included in the summaries.
10. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
11. We have disclosed to you the results of our assessment of the risk that the Schedule may be materially misstated as a result of fraud and error.

12. We have no knowledge of any information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:
 - a. City Administration;
 - b. Employees who have significant roles in internal control; or
 - c. Others where the fraud could have a material effect on the Schedule.
13. We have no knowledge of any information in relation to allegations of actual, suspected or alleged fraud, or illegal or suspected illegal acts affecting the entity.
14. There have been no communications with regulatory agencies concerning actual or potential noncompliance with or deficiencies in financial reporting practices. There are also no known or possible instances of noncompliance with the requirements of regulatory or governmental authorities.
15. We have complied with all applicable provisions of the laws pertaining to foreign corrupt practices.

Independence matters

For purposes of the following paragraphs, "Deloitte" shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

16. The City has not caused Deloitte's independence to be impaired by hiring or promoting a former or current Deloitte partner or professional employee in an accounting role or financial reporting oversight role that would cause a violation of the Canadian independence rules or other applicable independence rules. Prior to The City having any substantive employment conversations with a former or current Deloitte engagement team member The City has held discussions with Deloitte and obtained approval from the Audit Committee and Administration.
17. We have ensured that all services performed by Deloitte with respect to this engagement have been pre-approved by the Audit Committee and Administration in accordance with their established approval policies and procedures.

Other matters

Except where otherwise stated below, immaterial matters less than the clearly trivial threshold as outlined in Appendix B, are not considered to be exceptions that require disclosure for the purpose of the following representations. This amount is not necessarily indicative of amounts that would require adjustment to or disclosure in the financial information.

18. All transactions have been properly recorded in the accounting records and are reflected in the Schedule.
19. All related party relationships and transactions have been appropriately accounted for and disclosed in the Schedule in accordance with the requirements of PSAS.
20. We have disclosed to you all liabilities, provisions, contingent liabilities and contingent assets, including those associated with guarantees, whether written or oral, and they are appropriately reflected in the Schedule.
21. We have disclosed to you, and The City has complied with all aspects of contractual agreements that could have an effect on the Schedule in the event of noncompliance, including all covenants, conditions or other requirements of all outstanding debt.
22. There are no instances of identified or suspected noncompliance with laws and regulations whose effects should be considered when preparing the Schedule.
23. We have disclosed to you all known, actual or possible litigation and claims, whether or not they have been discussed with our lawyers, whose effects should be considered when preparing the Schedule. As appropriate, these items have been disclosed and accounted for in the Schedule in accordance with PSAS.

24. All events subsequent to the date of the Schedule and for which PSAS requires adjustment or disclosure have been adjusted or disclosed. Accounting estimates and disclosures included in the Schedule that are impacted by subsequent events have been appropriately adjusted.

Yours truly,
The City of Calgary

Councillor Evan Wooley, Audit Committee Chair

Carla Male, Chief Financial Officer

Appendix A

The City of Calgary – Audits of the off-site levy schedule of The City of Calgary

Summary of uncorrected misstatements

Years ended December 31, 2016, 2017, 2018, 2019 and 2020

Current year uncorrected errors

(000's)	Assets DR (CR)	Liabilities DR (CR)	Accumulated Surplus DR (CR)	Income DR (CR)
Factual				
Unrecorded OSL collections - cumulative misstatement at December 31, 2020 pertaining to:				
2017 – (\$5)	173	(173)	-	-
2018 – \$37				
2019 – \$34				
2020 – \$107				
Total	173	(173)	-	-

Appendix B

The City of Calgary – Audits of the off-site levy schedule of The City of Calgary

Summary of clearly trivial threshold

Years ended December 31, 2016, 2017, 2018, 2019 and 2020

Year	2016			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Clearly trivial threshold	110,000	165,000	60,000	21,000

Year	2017			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Clearly trivial threshold	110,000	145,000	46,500	22,000

Year	2018			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Clearly trivial threshold	100,000	80,000	70,000	22,000

Year	2019			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Clearly trivial threshold	105,000	70,000	43,500	20,000

Year	2020			
Department	<i>Community Service</i>	<i>Transportation</i>	<i>Water</i>	<i>Police</i>
Clearly trivial threshold	150,000	55,000	40,000	26,000