

## **Calgary Police Service** 2020 Audit service plan

For the year ending December 31, 2020  
Presented to the Finance and Audit Committee  
December 1, 2020



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November 24, 2020

The Finance and Audit Committee of the Calgary Police Commission

**2020 Audit service plan**

Dear Finance and Audit Committee members:

We are pleased to provide you with our audit service plan for Calgary Police Service (the "Service") for the year ending December 31, 2020. This document describes the key features of our plan including our audit scope and approach, our planned communications with you and an estimate of our fees.

Our commitment to you is straightforward: we will provide you with outstanding professional services delivered by an experienced and dedicated team of specialists. Our professionals will continue providing you with best practices and insights to face the increasingly complex array of issues and challenges encountered by companies like the Service. At Deloitte, we are committed to helping the Service grow and successfully achieve its business objectives in today's ever-changing economy.

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 our audit service plan with you and answering any questions you may have.

Yours truly,

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

Chartered Professional Accountants

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# Executive summary

## Audit scope and terms of engagement

We have been asked to perform an audit of the Service's financial statements (the "financial statements") prepared in accordance with Canadian public sector accounting standards ("PSAS") as at and for the year ending December 31, 2020. 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 dated November 14, 2018 and the draft confirmation of changes letter, which is included in Appendix 4. Our confirmation of changes letter should be signed on behalf of the Finance and Audit Committee and management.

## Significant risks

### Status

1 Management override of controls



2 Revenue recognition



New from prior year



Continued from prior year



Removed from prior year

## Materiality

\$7.7M

Preliminary materiality

\$385K

Clearly trivial threshold

Our preliminary estimate of materiality for the year ending December 31, 2020 has been set at \$7,700,000 (2019, \$7,700,000) on the basis of total expenses. We will report to you any uncorrected misstatements greater than our current year clearly trivial amount of \$385,000 (2019, \$385,000). As part of our year-end audit procedures, we will revise materiality based on total expenses.

## 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 management's effort to manage earnings.
5. Evaluating whether the judgements and decisions related to management estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

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

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





## Audit fees

Audit fees	2020	2019
Audit	\$50,500	\$50,000
Audit procedures applied to the adoption of the new accounting standard	-	\$600
Additional audit procedures due to the impact of COVID-19*	\$TBD	-
<b>Total fees</b>	<b>\$50,500</b>	<b>\$50,600</b>

\* Based on discussions with management, the full impact of COVID-19 as at December 31, 2020 on the Service's operations and financial results cannot be determined as at the date of issuance of this report. As such, once we have determined the full extent of the impact of COVID-19 on the 2020 audit, we will provide a fee estimate for any additional procedures required.

# Areas of audit focus



## Focus areas

### Accuracy, recording and presentation of accrued liabilities

Completeness and accuracy of the recording and presentation of accrued liabilities.

### Accuracy and disclosure of pension liability (employee benefit obligations)

The pension liability, including financial statement disclosures may not be accurately recorded.



## Why do these factors create complexity?

The recognition of reserves requires an increased level of management judgement. For the year ended December 31, 2019, Deloitte identified an error in the calculation related to the the civilian employee benefit liability. This was subsequently corrected by the Service in 2020. The correcting entry will be subject to audit procedures for the year ended December 31, 2020.

The pension obligation is determined based on various inputs and assumptions (including discount rates, inflation rates, mortality rates, termination rates, retirement rates, salary increases, etc). Underlying asset and/or obligation balances may be impacted due to the effects of the COVID-19 pandemic.

The above noted areas of focus have been identified as of the date of issuance of this report. As we perform our audit procedures, we will inform you of any significant changes to the areas discussed above and the reasons for those changes.

# 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. In performing our risk assessment, we have considered the risks identified by management in performing their risk assessment.

The following tables set out the significant audit risks that we identified during our preliminary planning activities, including our proposed response to each risk. Our planned audit response is based on our assessment of the likelihood of a risk's occurrence, the significance should a misstatement occur, our determination of materiality and our prior knowledge of the Service.

## Significant risk dashboard

### Legend



Significant level of management judgment involved



Minimal/No management judgment involved


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

**OE:** Planned testing of the operating effectiveness of key controls

### Management override of controls

Fraud Risk	YES	Analysis of risk	Planned audit response
Control Testing Planned	D+I	<ul style="list-style-type: none"> <li>Under Canadian Auditing Standards, it is the responsibility of management, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.</li> <li>Management override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.</li> <li>This represents a fraud risk for the 2020 audit.</li> </ul>	<ul style="list-style-type: none"> <li>We will discuss fraud with management.</li> <li>We will ask the Finance and Audit Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting the Service and their role in the oversight of management's antifraud programs.</li> <li>We will test a sample of journal entries made throughout the period, and adjustments made at the end of the reporting period.</li> <li>We will evaluate the business rationale for any significant unusual transactions.</li> <li>We will determine whether the judgments and decisions related to management estimates indicate a possible bias, which included performing retrospective analysis of significant accounting estimates.</li> </ul>
Level of management judgement			
Specialist, Expert or Innovation Involvement	Not applicable		

## Revenue recognition

Fraud Risk	YES	Analysis of risk	Planned audit response
<b>Control Testing Planned</b>	<b>D+I</b>	<ul style="list-style-type: none"> <li>Assurance standards include the presumption of a fraud risk involving improper revenue recognition.</li> <li>There may be a risk of material misstatement relating to the occurrence and cutoff of the following revenue streams: government grants, sale of goods and services and fines and penalties</li> <li>This represents a fraud risk for the 2020 audit.</li> </ul>	<ul style="list-style-type: none"> <li>We will make selections and perform tests of detail to verify whether it is appropriate to recognize revenue for each revenue stream.</li> <li>We will also make inquiries of management and test the design and implementation of control activities involving management's process for accounting for revenue transactions and determine when the revenue recognition criteria have been met.</li> </ul>
<b>Level of management judgement</b>			
<b>Specialist, Expert or Innovation Involvement</b>	Not applicable.		



# COVID-19 impact on the 2020 audit

Due to COVID-19, we have identified certain areas of our 2020 audit that will be directly impacted in comparison to previous years. These changes will have an impact to our audit in terms of nature, timing and extent of audit procedures that we will be required to perform. We have outlined below the significant changes identified to date; however, as the full impact of COVID-19 on the operations and financial results of the Service cannot be determined at this time, this list is not all inclusive and will continue to evolve as we progress through the 2020 audit.

- Identify audit risks specific to COVID-19 and plan audit procedures to address these risks.
- Increase communication with management throughout the year to understand the impacts and implications of COVID-19.
- Understand and apply audit procedures to any changes in processes and controls at the Service.
- Consider alternative methods to obtain audit evidence (scanned copies, electronic versions, video calls to walk through controls, analyses and questions) due to remote work arrangements.
- In the event that the governments continue to require social distancing, consider and plan to perform audit testing remotely, as required.

Throughout the year, we will work with management and continue to monitor for emerging risks as they occur and incorporate newly identified risks into our risk assessment process, if required. We will also monitor audit scope and timelines and adjust accordingly to ensure we meet reporting deadlines. We will inform the Finance and Audit Committee of any significant changes to our risk assessment.

# Revised CAS 540, Auditing Accounting Estimates and Related Disclosures

Effective for audits of financial statements for periods beginning on or after December 15, 2019.

## Drivers for the Revised Standard

- Changes in financial reporting frameworks and standards include a greater focus on complex accounting estimates, which highlights the importance of fostering professional skepticism.
- Need to improve communication and transparency between auditors and those charged with governance on complex accounting estimates.



## What can you expect from your auditor?

### Management

- Greater focus in assessing how management understands the nature, extent, risks and controls associated with accounting estimates.
- Varying audit procedures to drive work efforts based on assessed risk levels including consideration to adopt a control reliance approach to auditing accounting estimates.
- More interaction with management's experts.
- Specific written management representations.

### Communication with the Finance and Audit Committee

- The Finance and Audit Committee can expect to have enhanced dialogue on accounting estimates. This may include the auditor's views and assessment of:
  - Significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures.
  - Indicators of management bias.
  - Appropriateness of management's methods, assumptions and data used.
  - Significant deficiencies in internal controls around accounting estimates.

# 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 Service.

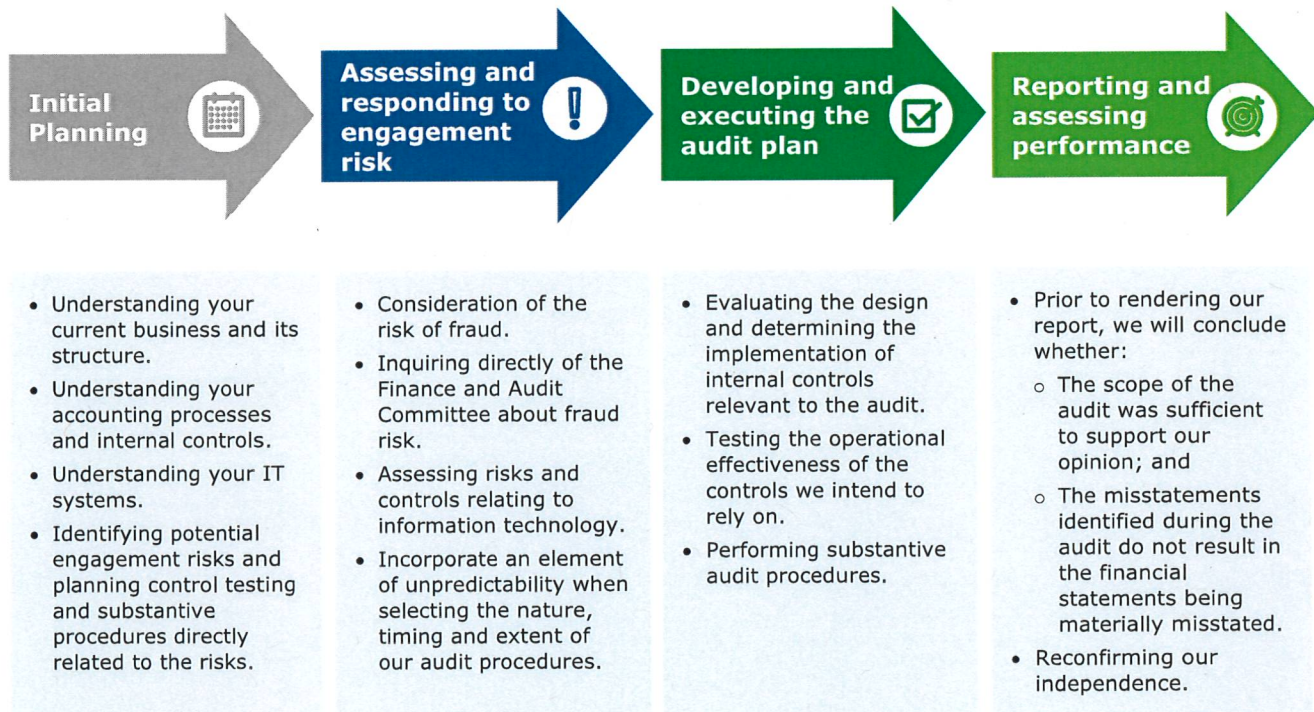


## Delivering professional excellence

### Focus area

<b>Risk based audit</b>	<ul style="list-style-type: none"> <li>• Deliver a customized risk assessment, focusing our attention and resources on the audit areas that are most relevant to the Service.</li> </ul>
<b>Confidential Information</b>	<ul style="list-style-type: none"> <li>• Protecting the privacy and confidentiality of our clients and the firm is a cornerstone of the professional standards every Deloitte partner and practitioner commits to upholding every day.</li> <li>• Deloitte employs technical, physical and procedural safeguards, including our Confidential Information Program, to appropriately safeguard your data before, during and after the course of the engagement.</li> </ul>
<b>Professional skepticism</b>	<ul style="list-style-type: none"> <li>• Obtain a thorough understanding of the relevant facts and information available concerning new significant transactions or events, analyze reasonable alternatives, apply a questioning mindset and challenge management’s assumptions.</li> <li>• Perform a rigorous review of potential contradictory evidence concerning new significant transactions or events.</li> </ul>
<b>Consultations</b>	<ul style="list-style-type: none"> <li>• Consult with technical resources concerning new significant transactions or events, as necessary.</li> </ul>





### Focus area

#### Audit technology

- Deloitte Connect – Use Deloitte’s secure, online collaboration site to facilitate a two-way dialogue between the Deloitte team and the Service team to effectively manage engagement coordination and provide greater transparency allowing both management and auditor visibility over client request status.

### Focus area

#### Processes

- Project management** - Enhance project management oversight and effective communications between the audit team and management.

#### The Finance and Audit Committee reporting

- The Finance and Audit Committee communications** – Harman Gill and Ivana Cvitanusic to meet with the Finance and Audit Committee to present the Audit Service Plan and the results of the audit.

# Appendix 2 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

Required communication
Audit Service Plan
<ol style="list-style-type: none"> <li>1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements.</li> <li>2. An overview of the overall audit strategy, addressing:               <ol style="list-style-type: none"> <li>a. Timing of the audit; and</li> <li>b. Significant risks, including fraud risks.</li> </ol> </li> <li>3. Significant transactions outside of the normal course of business, including related party transactions.</li> </ol>
Enquiries of those charged with governance
<ol style="list-style-type: none"> <li>4. How those charged with governance exercise oversight over management's process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks.</li> <li>5. Any known suspected or alleged fraud affecting the Service.</li> <li>6. Whether the Service is in compliance with laws and regulations.</li> </ol>
Year-end communication
<ol style="list-style-type: none"> <li>7. Modification to our audit plan and strategy.</li> <li>8. Fraud or possible fraud identified through the audit process.</li> <li>9. Significant accounting policies, practices, unusual transactions and our related conclusions.</li> <li>10. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period.</li> <li>11. Matters related to going concern.</li> <li>12. Management judgments and accounting estimates.</li> <li>13. Significant difficulties, if any, encountered during the audit.</li> <li>14. Material written communications between management and us, including management representation letters.</li> <li>15. Circumstances that affect the form and the content of the auditor's report.</li> <li>16. Modifications to our opinion.</li> <li>17. Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns.</li> </ol>

18. Significant matters discussed with management.
19. 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.
20. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements.
21. Uncorrected misstatements and disclosure items.
22. Any significant matters arising during the audit in connection with the Service's related parties.

# Appendix 3 – 2020 Summary audit timeline

This estimated timeline indicates our various procedures and release of our communications as planned throughout the year:

	Estimated to begin	Targeted for completion
<b>Audit performance</b>		
Planning audit procedures	December 14, 2020	December 18, 2020
Final audit procedures	March 15, 2021	April 2, 2021
<b>Auditor's communications</b>		
Discuss audit planning, scope, risks of fraud, and fees		December 1, 2020
Review the results of our audit and provide audit report		May 2021
Review of business insights with management		May 2021



# Appendix 4 – Draft confirmation of changes letter

December 1, 2020

## Private and confidential

Ms. Theresa Roessel, Chair of the Finance and Audit Committee  
The Finance and Audit Committee of the Calgary Police Commission  
650, 615 Macleod Trail SE  
Calgary, AB T2G 4T8

Mr. Blaine Hutchins, Executive Director  
Calgary Police Service  
5111 - 47 Street NE  
Calgary, AB T2J 3R2

## Re: Confirmation of Changes to Fees and Updates to the General Business Terms

Dear Sirs/Mesdames:

This letter is issued to you further to the master services agreement ("MSA") between Calgary Police Service (the "Service") and Deloitte LLP ("Deloitte") dated November 14, 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, any previous confirmation letters issued pursuant to the MSA and 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 fees and updates to the general business terms.

### Changes to fees

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.

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Calgary Police Service	Fee
<i>Year ending December 31, 2020</i>	
Financial Statement Audit	\$50,500
Additional audit procedures due to the impacts of COVID-19	\$TBD

## Update of General Business Terms

Calgary Police Service (the “Client”) and Deloitte agree to the following new or modified general business terms being added to the general business terms of the Agreement.

**10. Limitation on liability** – The Client and Deloitte agree to the following with respect to Deloitte’s liability to the Client:

- a. The Client agrees that Deloitte shall not be liable to the Client for any claims, liabilities, or expenses relating to this Agreement and any Services for an aggregate amount in excess of three times the fees paid by the Client to Deloitte in the twelve months preceding the incident giving rise to the claim.
- b. In no event shall Deloitte be liable for consequential, special, indirect, incidental, punitive or exemplary loss, damage, or expense relating to this Agreement or any Services for any loss of revenue or profit, loss of opportunity, loss of data, or any other commercial or economic loss or failure to realize expected savings.
- c. In any action, claim, loss or damage arising out of this Agreement and any Services, the Client agrees that Deloitte’s liability will be several and not joint and several and the Client may only claim payment from Deloitte of Deloitte’s proportionate share of the total liability based on the degree of fault of Deloitte.

The provisions of this section shall apply to the fullest extent of the law, whether in contract, statute, tort (such as negligence), or otherwise. This section shall survive termination or expiry of the Agreement. The provisions of this section and any other limitations of liability contained in this Agreement shall not apply to any liability which by the governing law of the Agreement is unlawful to limit or exclude. In furtherance of the foregoing, from time to time, Deloitte may have individual partners and employees performing the Services within the Province of Quebec who are members of the Ordre des comptables professionnels agréés du Québec. The limitations outlined in this section as well any limitations of liability contained in this Agreement shall not apply to limit the personal civil liability of members of the Ordre des comptables professionnels agréés du Québec performing professional Services hereunder (and with respect to such members, such limitations shall be deemed not to be included in this Agreement). For purposes of this section, “Deloitte” shall mean Deloitte LLP and its directors, officers, partners, professional corporations, employees, subsidiaries and affiliates and to the extent providing Services, any Deloitte Entities and all of their partners, principals, members, owners, directors, staff and agents; and in all cases any successor or assignee. The Client agrees that any claims that may arise out of this Agreement or any Services will be brought solely against Deloitte as the contracting party and not against any other Deloitte Entities.

When Deloitte is performing audit, review or attest/assurance services that are subject to the US Public Company Accounting Oversight Board (“PCAOB”) and/or US Securities and Exchange Commission (“SEC”) rules or professional standards, any clauses that result in a limitation of Deloitte’s liability do not apply.

- 21. Force Majeure** – No party shall be deemed to be in breach of the engagement as a result of any delays or non-performance directly or indirectly resulting from circumstances or causes beyond its reasonable control, including, without limitation, fire, epidemic or other casualty, act of God, strike or labor dispute, war or other violence, any law, order or requirement of any governmental agency or authority, or pandemics (including, without limitation, COVID-19 and any such restrictions or conditions on working practices in response to such a threat). For greater certainty, Deloitte shall have no liability for any failure or delay to perform its obligations related to the Services, to the extent caused and/or contributed to by the spread of COVID-19 and its associated impacts.

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 fiscal year 2020.

Yours truly,

Chartered Professional Accountants

Enclosure

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

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Signature

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Title

The services and terms set forth in and incorporated into this letter are accepted and agreed to by Calgary Police Service management:

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Signature

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Title

# Appendix 5 – New and Revised Accounting and Auditing Standards

The following is a summary of certain new standards, amendments and proposals that will become effective in 2021 and beyond.

To review all recent amendments that will impact your organization in the foreseeable future, we invite you to review our revamped [Standard section of iasplus.com](https://www.iasplus.com).

Title	Description	Effective Date
Section PS 3280, <i>Asset retirement obligations</i>	This Section establishes standards on how to account for and report a liability for asset retirement obligations.	Effective April 1, 2022, earlier application is permitted.
Section PS 3400, <i>Revenue</i>	This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations.	Effective for fiscal years beginning on or after April 1, 2023. Earlier adoption is permitted. The Section may be applied retroactively or prospectively.