

## **TANGIBLE CAPITAL ASSETS UPDATE**

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### **EXECUTIVE SUMMARY**

The purpose of this report is to provide the Audit Committee with an update on the progress of The City of Calgary (The City)'s efforts to improve the Tangible Capital Asset (TCA) reporting process.

### **ADMINISTRATION RECOMMENDATION:**

1. That Audit Committee receives this report for information.

### **PREVIOUS COUNCIL DIRECTION / POLICY**

In accordance with Bylaw 48M2012, the Audit Committee engages Administration in candid discussion regarding issues that may alter judgment or affect the quality of the reporting process, as well as areas where changes in accounting standards could have a material impact on financial results.

### **BACKGROUND**

In 2007, the Public Sector Accounting Board (PSAB) approved a recommendation to require local governments to recognize tangible capital expenditures as capital assets and to amortize them over their expected useful life beginning on or after January 1, 2009. The City of Calgary has adopted these standards. This is the biggest accounting change for the past 100 years for the City of Calgary.

Ever since the initial implementation period, Administration noted that continued usage and refinement of capital asset accounting practices resulted in the correction of The City's financial statements.

Administration began a comprehensive strategy to review The City's processes and policies supporting TCA reporting in 2014. The assessment led to the formation of the TCA Program in 2015, which aimed to develop a compliant, simple, and consistent TCA reporting across The City.

This report is an update to inform the Audit Committee of the TCA Program's progress of its ongoing initiatives.

### **INVESTIGATION: ALTERNATIVES AND ANALYSIS**

Results of Administration's review of the TCA reporting process indicated that The City had three improvement opportunities related to:

- Process: simplify and increase ability to use and apply the TCA reporting policy on a consistent basis;
- People: clarify roles and responsibilities to strengthen collaboration and communication across The City; and
- System: implement technological enhancements to allow Administration to better monitor eligible TCA projects.

Results of Administration's analysis led to the formation of the TCA Program.

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Each project in the TCA Program supports The City's commitment of creating and implementing sustainable solutions:

Corporate TCA Project	TCA Costing Project	TCA Finance
Develops solutions that impact process and people.	Implements a new reporting system to identify and monitor TCA eligible projects.	Sustains the process, people, and system changes.

### Corporate TCA Project: Focus Area – Process and People

The asset hierarchy review has been completed for approximately 70% of The City's TCA balance to date which include machinery and equipment, buildings, and engineered structures.

For 2017 the project initiatives will include:

- Assessing asset hierarchy review of land, land improvements, and vehicles in 2017;
- Exchanging TCA best practices with business units;

The City's TCA organizational structure is also being reviewed to find opportunities to establish and promote clear roles and responsibilities for individuals involved with TCA reporting. Changes to roles and responsibilities will begin in 2017.

### TCA Costing Project: Focus Area – System

A new reporting tool is under development to allow The City to strengthen its identification and tracking of costs to aid its tangible capitalization decisions. Administration plans to implement the reporting tool in April 2017.

### TCA Finance: Focus Area – Process, People, and System

TCA Finance has been supporting both the Corporate TCA Project and TCA Costing Project's initiatives by:

- Updating the TCA Reporting policy based on asset hierarchy review and implementing system changes.
- Confirming that business units are applying the TCA policy changes on a consistent basis through review of financial results during each reporting period; in general, the policy revisions standardize the reporting requirements across The City, thereby reducing risk of inconsistent policy application.
- Introducing improvements to existing system tools by automating complex calculations.

## **Stakeholder Engagement, Research and Communication**

The TCA Program base its decisions to refine the TCA reporting process using results of consultations performed with other Canadian municipalities, research of best practices, and engagement of internal stakeholders.

## **Strategic Alignment**

This Report serves to enhance Audit Committee's understanding of changes in accounting practices and policies for TCA reporting and ability to fulfill audit governance requirements.

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All changes will be integrated with The City's overall compliance requirements with both provincial legislation and CPA Canada to provide the public with relevant and transparent financial information.

### **Social, Environmental, Economic (External)**

No implications related to this Report have been identified.

### **Financial Capacity**

#### **Current and Future Operating Budget:**

There are no operating budget implications for this Report.

#### **Current and Future Capital Budget:**

There are no capital budget implications for this Report.

### **Risk Assessment**

The activities of the TCA Program serve to mitigate risks associated with restatement of financial statements, as well as internal control weaknesses.

### **REASON(S) FOR RECOMMENDATION(S):**

This Report is to inform the Audit Committee regarding Administration's initiatives to strengthen and improve the overall TCA reporting practices used by The City.

### **ATTACHMENT(S)**

Tangible Capital Assets Update Presentation to City Audit Committee