

June 6, 2022

Ms. Carla Male, Chief Financial Officer  
The City of Calgary  
800 MacLeod Trail SE  
Calgary, AB T2P 2M5

Dear Ms. Male:

We have recently completed our audit of the consolidated financial statements of The City of Calgary ("The City") for the year ended December 31, 2021.

We examined the accounting procedures and systems of internal control employed by The City to the extent we considered necessary to make an evaluation of such systems and procedures in accordance with Canadian generally accepted auditing standards ("GAAS"). The objective of a financial statement audit conducted in accordance with Canadian GAAS is to express an opinion on the fairness of the presentation, in all material respects, of The City's financial statements for the year ended December 31, 2021 in accordance with Canadian public sector accounting standards ("PSAS").

Under these standards, the fundamental purpose of the evaluation is to assess audit risk to assist in determining the nature, extent and timing of our audit tests and to establish the degree of reliance that we could place on selected controls; it was not to determine whether internal controls were adequate for Administration's purposes or to provide assurance on the design or operational effectiveness of internal control over financial reporting.

While our examination would not necessarily disclose all weaknesses in the systems of internal control as these examinations are based on selective tests of the accounting records and related data, we are required to communicate significant deficiencies to those charged with governance. A significant deficiency is defined in the Canadian Auditing Standards Section 265 as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

We did not identify any matters that would be of interest to Administration resulting from the 2021 audit. We have however, included in this letter an update to observations we identified during the prior year's audit. Our update to the prior year's observations is based on procedures we performed during the 2021 audit.

The following summarizes the management letter points included in Appendix A:

<b>Year Identified</b>	<b>Appendix</b>	<b>Title of Observation</b>	<b>Status</b>
2020	A	Automation of the consolidation process	In progress

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We wish to express our appreciation for the courtesies and cooperation extended to your representatives during the course of our work. We would be pleased to discuss and/or clarify the matters included herein with you further should you wish to do so.

Yours truly,

*Deloitte LLP*

Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

# Appendix A – Update to December 31, 2020 year-end observations

## **1. Automation of the consolidation process**

Year Identified - 2020

### **Observation:**

As noted in a previous recommendation letter for the 2015 year-end audit, The City's consolidation process continues to be a manual exercise. The consolidated financial statements include figures from All Funds Statements ("AFS") and consolidation and elimination entries relating to four funds (operating, capital, tangible capital asset and reserve funds) and the related authorities.

Over the last number of years, the transactions between The City and the related authorities have become increasingly more complex, resulting in additional consolidation and elimination entries. The complexity of transactions will continue to increase in the coming years with the implementation of new accounting standards by The City and the related authorities.

Administration uses excel spreadsheets to prepare The City's consolidated financial statements, which include the AFS's from the related authorities and approximately one hundred elimination and consolidation entries, resulting in a complex consolidation exercise. The use of spreadsheets for a complex consolidation is not a best practice as the use of spreadsheets inherently increases the risk of errors relating to incorrect formulas, calculations or simple human error (unintentional deletion or incorrect data entry) and data integrity issues that may go undetected by the preparer or reviewer. Further, reflecting changes from updates to the AFS reports prepared by the related authorities is a manual process that is prone to potential errors and integrity issues.

Additionally, The City undergoes internal reorganizations from time to time. These internal reorganizations may require changes to the disclosures in the consolidated financial statements, including comparative information. To the extent that the consolidation can become more automated, there is a likelihood that generation of supplementary notes and schedules such as segmented disclosures could be done on a timelier basis while freeing up resourcing for Administration to focus on tasks that require manual involvement.

### **Recommendation:**

We recommend that Administration implement an automated process relating to the preparation of the consolidated financial statements. For example, a dedicated consolidation information technology software should be utilized (i.e. SAP, Hyperion, PeopleSoft) to minimize errors, integrity issues, generate useful reports and to increase efficiency and timeliness of the financial reporting process.

### **Administration response:**

Administration agrees with this recommendation. Currently, there are appropriate internal controls in place to prepare an accurate and complete consolidation; however, Corporate Financial Reporting ("CFR") will review the current consolidation process in 2021 for additional improvements and consider the available options for the implementation of an automated process for the future. CFR recognizes that given the nature and size of The City, including its related authorities, an automated process for the consolidation would result in the generation of useful reports, increased efficiencies and timeliness of the financial reporting process and reduce the risk profile of the current manual process.

Implementation of a consolidation system is a multi-million dollar commitment by The City and would require capital prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature. CFR will prepare a business case by the end of fiscal 2021 and engage

with internal IT resources for scope and cost considerations. Dependent on these findings, CFR may submit an application for funding in the next four year budget cycle.

**Administration's update – January 2022:**

Administration continues to agree with this recommendation. Implementation of a consolidation system is a multi-million dollar commitment by The City and requires capital prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature. Administration has prepared a business case during 2021 and will engage with internal IT resources for scope and cost considerations during fiscal 2022. Dependent on these findings, CFR may submit an application for funding in the next four year budget cycle.

**Auditor's update - January 2022 (based on November 2021 interim audit procedures):**

We will continue to obtain updates from Administration on the progression of the business case for an automated consolidation process. During our year-end fieldwork, we will perform our planned audit procedures on the consolidation and will report any deficiencies or further recommendations to Administration and Audit Committee upon the completion of the 2021 year-end audit.

**Auditor's update June 2022 (based on 2021 year-end audit procedures):**

We performed our planned audit procedures on the consolidation and did not identify any deficiencies or further recommendations to Administration and Audit Committee upon completion of the 2021 year-end audit. However, we continue to recommend that Administration implement an automated process relating to the preparation of the consolidated financial statements to minimize the risk of errors, integrity issues, generate useful reports and to increase efficiency and timeliness of the financial reporting process.

**Administration's update June 2022 (based on 2021 year-end audit procedures):**

Administration continues to agree with this recommendation. CFR has prepared a business case and engaged internal IT resources for scope and cost considerations. Implementation of a consolidation system is a multi-million dollar commitment by The City and would require capital prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature. The business case is currently being circulated internally for approval and CFR will be submitting an application for funding considerations in the next four year budget cycle.