Deloitte.

The City of Calgary

2016 Audit service plan

For the year ending December 31, 2016
Presented to the Audit Committee
July 21, 2016

Instilling confidence

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

Tel: (403) 267-1700
Fax: (403) 213-5791
www.deloitte.ca

July 12, 2016

To the Members of the Audit Committee of
The City Council of The City of Calgary

Dear Audit Committee Members:

We are pleased to present our 2016 audit service plan for The City of Calgary ("The City"), which describes our audit scope and strategy, our protocols for communication with the Audit Committee (the "Committee") and Administration, and other services we provide for The City.

We are proud of our relationship with The City. Our objective at Deloitte is to set the standard of excellence and our team is committed to providing an efficient, high-quality audit. We recognize and are sensitive to your expectations regarding cost administration and quality. We will focus our efforts on higher risk areas and coordinate our activities with Administration and make every effort to achieve audit efficiencies.

Our engagement will include:

- An audit of The City's consolidated financial statements (the "Financial Statements") as at and for the year ending December 31, 2016 prepared in accordance with Canadian public sector accounting standards ("PSAS") and conducted in accordance with Canadian generally accepted auditing standards ("GAAS");
- An audit of the Municipal Information Return for the year ending December 31, 2016;
- An audit of the Funds Held in Trust by The City for the year ending December 31, 2016; and
- An audit of The City newspaper insert for the year ending December 31, 2016 (summarization of The City's 2016 financial information).

We are providing this audit service plan to the Committee on a confidential basis. It is intended solely for the use of the Committee to assist it in discharging its responsibilities with respect to the Financial Statements for the year ending December 31, 2016 prepared in accordance with PSAS and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on it.

We look forward to discussing our audit service plan with you and answering any questions you may have.

Yours truly,

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants

Table of contents

At a glance 1
Risk assessment 3
Audit scope 9
Audit fees 11
Appendix 1 – The Deloitte risk-based audit approach 13
Appendix 2 – Draft engagement letter 19
Appendix 3 – Audit team 38
Appendix 4 - Summary audit timeline 39
Appendix 5 – Communication requirements 40
Appendix 6 – Audit committee terms of reference 41
Appendix 7 – New Financial Reporting Standards 43
Appendix 8 – The Deloitte client service commitment 44
Appendix 9 – Deloitte resources a click away 46
Appendix 10 – Deloitte Portal 48

© Deloitte LLP and affiliated entities.

At a glance

As your auditor, we understand that you require Deloitte to perform a high-quality, proactive audit that is delivered with integrity, objectivity and independence.

Our audit addresses financial statement risks through targeted procedures that are responsive to the nature of these risks, including changes in The City and its operational environment. Our procedures include identifying and analyzing issues and facts relevant to our audit conclusions and providing objective challenges to Administration's judgments and assumptions.

Our audit approach involves consideration of the following:

Audit scope and terms of engagement	The scope of this audit will include a full-scope audit as discussed in the Audit scope section. The audit service plan considers several factors which are discussed in detail in the body of the report including: • Risk assessment, and • Internal control matters. The terms and conditions of our engagement are included in the engagement letter, which is to be signed on behalf of City Council. A draft version of the engagement letter is included in Appendix 2.
Independence	We have developed important safeguards and procedures to protect our independence and objectivity. If, during the year, we identify a breach of independence, we will communicate it to you in writing. Our communication will describe the significance of the breach, including its nature and duration, the action taken or proposed to be taken, and our conclusion as to whether or not the action will satisfactorily address the consequences of the breach and have any impact on our ability to serve as independent auditors to The City. We are independent of The City and we will reconfirm our independence in our final report to the Committee.
Materiality	We are responsible for providing reasonable assurance that your Financial Statements as a whole are free from material misstatement. In determining the level of materiality to utilize for the financial statement audit of The City we take into account the users of the financial statements, specifically the citizens of Calgary as well as the Committee, who has an overall responsibility for the Financial Statements. In addition, we also take into consideration The City's long term debt rating of AA+ as determined by Standard and Poors (2016) and AA (high) by Dominion Bond Rating Service (2015) as this is an indication of the overall financial viability of The City. Materiality levels are determined on the basis of consolidated budgeted operating expenses and other qualitative factors. Our preliminary estimate of materiality for the 2016 audit is $54,000,000 (2015, $50,000,000). We will report to the Committee all uncorrected misstatements greater than a clearly trivial amount of $2,700,000 (2015, $2,500,000), computed as 5% of materiality, and any misstatements that are, in our judgment, qualitatively material. In accordance with Canadian GAAS, we will request that misstatements, if any, be corrected.

© Deloitte LLP and affiliated entities.

Audit risks	We have identified the following areas of significant risk for the 2016 audit: • Completeness and valuation of Tangible Capital Assets ("TCA"); • Administration override of controls • Accounting and financial statement disclosure of Private – Public Partnership ("P3") agreements; and • PS 3260, *Liability for contaminated sites*. See the Risk assessment section for further discussion of these risks and related audit responses.
Audit team	Our audit team is led by Trevor Nakka, our lead client service partner. Mr. Nakka is responsible for all services provided to The City and will be supported by a team that includes Harman Gill, audit engagement partner and Rakesh Ashar, ERS partner. The key audit team members serving The City are presented in Appendix 3.
Audit fees	We propose base audit fees of $258,500 (2015, $252,200) for the consolidated financial statements. Based on discussions with Administration and our prior year audit, we will incur additional fees for the following areas: P3 agreements (Stoney Transit Facility and Composting Facility Project) entered into by The City. Estimated additional audit fees of $24,500 and $14,500 respectively will be incurred to review the P3 agreements and the accounting treatment analysis prepared by Administration to determine the impact on the 2016 financial statements. Additional work related to work undertaken by Administration during fiscal 2016 to complete the adoption PS 3260, *Liability for Contaminated Sites* will result in additional fees. The additional fees are estimated to be $10,000. Moreover, additional work is required in regards to the consolidation of the related authorities. There are three entities (Attainable Homes Calgary Corporation, Calgary Economic Development Ltd. and Calgary Arts Development Authority Ltd.) that are audited by other accounting firms. We will test all material balances relating to these authorities as part of our consolidation procedures. The additional fees are estimated to be $16,500. Finally, based on discussions with Administration, we understand that Administration is in the process of reviewing Tangible Capital Asset account balances and related processes. During fiscal 2016, a review of buildings and engineered structures has resulted in changes in accounting policies and processes relating to these asset classes. Estimated additional fees of $17,500 will be incurred to review the implementation of the revised policies and procedures. We will work with Administration to keep our time and costs to a minimum to satisfy our professional audit requirements to address the above matters. Our objective is to conduct an efficient audit in accordance with Canadian GAAS. The time we have estimated for our audit assumes an optimum level of assistance from The City staff and our commitment to fulfill our professional responsibilities and duties in an efficient manner. We have carefully considered all elements included within our audit plan and confirm that, in our judgment, all such procedures are appropriate and in line with Canadian GAAS. Additional information on fees, including fees for the audits of related parties and other audits we perform, is provided later in this report.
Complete engagement reporting	Upon the satisfactory completion of our audit, including the receipt of written representations from Administration, we will provide you with an audit report on your Financial Statements. We will also issue other reports to assist you in fulfilling your responsibilities, as required by applicable auditing standards. Appendix 5 summarizes the required communications between Deloitte and the Committee.

© Deloitte LLP and affiliated entities.

Risk assessment

We compile information from a variety of sources, including discussions with Administration and the Committee, to identify risks to The City's financial reporting process that may require attention. Our preliminary risk assessment took into account:

- Key operational developments and transactions;
- Current operational, regulatory and accounting pronouncements and developments;
- Key Administration strategies and business plans;
- Prior years' audit results;
- Results of procedures relating to internal control; and
- Areas of significant judgment and risk.

During our risk assessment procedures, we identified significant risks that require special audit consideration. These risks, along with our planned responses (including both internal control and financial statement procedures), are listed below. In performing our risk assessment, we have considered the risks identified by Administration in performing their risk assessment.

The results of our audit planning and risk assessment drive the scope and timing of the audit procedures.

Our audit planning activities and our preliminary identification of audit risks enables us to set the scope of our audit and to design audit procedures tailored to the identified risks to financial reporting. The table below sets out significant risks to financial reporting that we identified during our preliminary planning activities. The table also includes 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 City.

Areas of significant risk for 2016

Tangible Capital Assets	
Audit risk	Completeness and valuation of Tangible Capital Assets ("TCA").
Our proposed audit response	We will audit The City's TCA additions, disposals and amortization along with related disclosures. Our testing will include, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the definition of capital are included and are appropriately valued. We will also review a sample of items recorded as repairs and maintenance to ensure these amounts are appropriately expensed. We will assess impairment indicators of TCA and will consider the need and amount of potential write downs. We will test TCA work in progress ("WIP") additions to ensure these WIP additions were appropriately accounted for as work in progress. We will also test the aging of TCA projects to ensure appropriate accounting treatment of those projects in the year-end financial statements. Given the nature of the TCA held by The City, there is a risk for misclassification of the respective TCA. As a result, we will perform increased substantive testing of the financial statement disclosures.

© Deloitte LLP and affiliated entities.

Administration override of controls

Audit risk	Assurance standards include the presumption of Administration override of controls as a significant risk. Administration may be in a unique position to perpetrate fraud because of Administration's ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
Our proposed audit response	We will engage in periodic fraud discussions with certain members of senior Administration and others, including The City Auditor, City Solicitor and the Committee. We will consider the potential for bias in judgments and estimates, including performing retrospective analysis of significant accounting estimates. We will evaluate the business rationale for any significant unusual transactions. We will evaluate The City's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process. We will test journal entries that exhibit characteristics of possible Administration override of controls identified.

P3 Agreements

Audit risk	During fiscal 2015 and 2016, The City signed the following P3 agreements: Stoney Transit Facility with an anticipated effective date of September 13, 2016 and the Composting Facility Project effective June 25, 2015. P3 agreements can include a number of complex underlying accounting treatments which require an in-depth, detailed analysis to ensure all accounting and financial reporting matters impacting the consolidated financial statements are taken into consideration. As there is currently no specific accounting standard under PSAS which provides accounting and financial reporting guidance, an entity is required to complete its own analysis specific to the agreement entered into in conjunction with existing accounting standards. Due to the highly complex nature of P3 agreements and the related accounting implications there is a risk the accounting for these transactions is not complete or accurate. There is also a risk that the financial statement presentation and disclosure is not complete.
Our proposed audit response	We will review the P3 agreements entered into by The City and the analysis of the accounting treatment prepared by Administration to ensure that these transactions have been accurately and completely recorded in the year-end financial statements in accordance with applicable accounting standards. Due to the complexity of P3 agreements, we may also be required to involve Deloitte experts to review the accounting impact and financial statement disclosure of the P3 agreements.

© Deloitte LLP and affiliated entities.

PS 3260, *Liability for contaminated sites*

Audit risk	PS 3260, *Liability for contaminated sites* ("PS 3260") was required to be adopted for the year ended December 31, 2015. PS 3260 established standards on how to account for and report a liability associated with the remediation of contaminated sites. The standard defines which activities should be included in a liability for remediation, the timing of this recognition, the method of measurement and provides the requirements for financial statement presentation and disclosure purposes. Due to the fact that the adoption of this standard was incomplete during fiscal 2015, we will be required to perform procedures to ensure complete adoption of this standard during fiscal 2016. There is a risk that the liability recorded for contaminated sites is not complete or accurate. There is also a risk that the application of the standard is not consistent with the guidance provided within PS 3260.
Our proposed audit response	We will review The City's methodology for application of this standard on city owned land and property. We will audit the assumptions and the calculation of the liability associated with the potential remediation costs. We will also review The City's assessment of all sites identified as having a high risk of contamination which were not completed in 2015. A review of financial statement disclosure relating to this liability will also be performed to ensure disclosures are consistent with guidance provided by PS 3260.

© Deloitte LLP and affiliated entities.

Areas of focus for 2016

PS 3270, *Solid waste landfill closure and post-closure liability*	
Audit risk	Valuation of environmental liabilities and asset retirement obligations, relating to the accrual of post closure landfill liabilities.
Our proposed audit response	We will review The City's estimates of post closure landfill liabilities. We will review City Council minutes and legal confirmations, hold discussions with Administration and rely on our knowledge of business to ensure completeness of the liability. We will review Administration's estimates and assumptions for reasonability and perform tests of details on the transactions during the year. We will require representations to be signed by Administration that all environmental liabilities and clean-up costs are complete and appropriately disclosed.

Funding contracts	
Audit risk	Disclosure and completeness of liabilities and commitments under funding contracts provided by The City.
Our proposed audit response	We will review Administration's assessment of liabilities and commitments required to be recorded or disclosed under agreements entered into during the year. We will review a sample of funding contracts entered into during the year to assess Administration's treatment and appropriate recording of these transactions. We will also assess the completeness of the balances via a review of City Council minutes and performing a search for unrecorded liabilities as well as a review of prior year estimates.

Capital deposits and deferred revenue	
Audit risk	Completeness and valuation of capital deposits and recognition of deferred revenue.
Our proposed audit response	We will select a sample of capital projects in progress over the year and ensure costs and related revenues are recorded in the correct period.

Related parties (authorities / subsidiaries / civic partners)	
Audit risk	Completeness and disclosure of the accounting for organizations included in the government reporting entity (related authorities or subsidiaries).
Our proposed audit response	We will review The City's accounting policies and any changes therein related to its related parties. We will verify that the related parties have been accounted for and disclosed in accordance with The City's accounting policies and PSAS and perform separate audits of significant related parties. We will audit all material balances relating to the related parties.

© Deloitte LLP and affiliated entities.

Litigation accruals and contingencies

Audit risk	Completeness and accuracy of claims and litigation matters of The City and its related authorities.
Our proposed audit response	We will enquire with The City's legal department and City Solicitor to determine the status of outstanding legal matters. We will review legal correspondence from The City Solicitor and discuss the status of outstanding legal matters with Administration and others, as necessary. We will then work with Administration to assess the appropriateness of any contingent liabilities and financial statement disclosures.

Government grants and transfers

Audit risk	Accounting and disclosure of government grants and transfers.
Our proposed audit response	We will review a sample of funding agreements to determine if the contract requires financial statement disclosure. We will review a sample of federal and provincial transfer payments received during the year to fund specific projects. We will review the related funding agreements to ensure funds are used for their intended purpose and that revenue is recognized in the appropriate period, including the deferred revenue. We will review deferred revenue for compliance with PSAS. We will test expenditures and ensure that the corresponding revenue has been recognized.

Tax revenue

Audit risk	Completeness and accuracy of the accounting for tax revenue.
Our proposed audit response	We will perform reasonability tests on tax revenue balances. We will review and test the tax revenue business cycle process controls. We will complete data analytical testing on the property tax revenues for the year end.

Reserves

Audit risk	Completeness and accuracy of the recording and presentation of reserves.
Our proposed audit response	We will review expenditures charged to each reserve and vouch a sample of expenditures to invoices to verify that the transaction was within the terms and conditions approved by City Council. We will also review the completeness and accuracy of the financial statement disclosures relating to reserves.

Long-term debt, pension liability, contractual and other long term obligations

Audit risk	Disclosure and completeness of long-term debt, pension liability, contractual and other long term obligations.
Our proposed audit response	We will review the completeness and accuracy of the financial statement disclosures relating to The City's long-term debt, pension liability, and contractual and other long term obligations. We will ensure that these disclosures are in accordance with PSAS guidance.

© Deloitte LLP and affiliated entities.

Non-standard transactions

Audit risk	Completeness and accuracy of non-standard transactions.
Our proposed audit response	Non-standard transactions are inherently riskier as there is no precedence for which to account for these items. Examples of non-standard transactions may include but are not limited to; transfer of lands to/from the Province, transfer of corporate properties between business units and the purchase and sale of properties. We will review large transactions that have occurred during the year to ensure that these transactions have been accurately and completely recorded in the year-end financial statements.

Implementation of new TCA policies and procedures

Audit risk	There is a risk that the adoption of new TCA policies and procedures are not implemented in a consistent manner across all business units. The City will be implementing new policies and procedures for the following asset classes during the current year: • Buildings; and • Engineered Structures.
Our proposed audit response	We will review the policies and procedures implemented to test that they have been designed and implemented effectively and in accordance with PSAS. We will test a sample of new additions to building and engineered structures to ensure that these additions have been accounted for based on the new policies and procedures.

As we perform our audit procedures, we will separately communicate any significant changes to the significant risks and areas of focus listed above and the reasons for such changes.

© Deloitte LLP and affiliated entities.

Audit scope

Designed to obtain reasonable assurance and address the risks of material misstatements.

An audit is designed to search for potential misstatements that, individually or collectively, are material. This is done by determining a specific threshold for each engagement and considering other qualitative factors. The threshold amount is also used to evaluate the significance of uncorrected misstatements that are noted during the audit.

The audit enables us to express an opinion on whether the Financial Statements are prepared, in all material respects, in accordance with PSAS. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by Administration, and evaluating the overall presentation of the Financial Statements. Our report on the Financial Statements and communications required by PSAS will be in accordance with our findings.

An audit is designed to search for potential misstatements that, individually or collectively, are material. Some of the factors we consider in determining the audit scope include:

- The existence of significant risks;
- A consideration of significant accounts and disclosures using materiality levels that are appropriate to support our audit opinion on The City's Financial Statements;
- The complexity and nature of the operations, internal controls and accounting issues;
- The degree of decentralization of processes and controls, including the extent of relevant enterprise-level controls; and
- The extent and nature of internal control deficiencies and financial statement misstatements identified in current and previous periods.

Based on our analysis of these risks, we have determined the scope of work we consider necessary to provide an appropriate basis for our audit opinion on the Financial Statements.

Internal control matters

We review and evaluate certain aspects of the systems of internal control over financial reporting to the extent we consider necessary in accordance with Canadian GAAS. The main purpose of our review is to assist in determining the nature, extent and timing of our audit tests and to establish the degree of reliance that we can place on selected controls.

As part of our planning procedures, we will review the systems of internal control relating to several business processes. Our focus is on reviewing the relevant business process documentation, interviewing the business process owners and ensuring that the relevant key controls are appropriately designed and implemented. In addition, there are several business processes for which we complete operating effectiveness testing to ensure that the key controls in those areas have been designed, implemented and are operating effectively during the period subject to audit. During our year-end reporting and as part of our letter of recommendations to Administration we will report to the Committee any observations relating to internal control matters that may be of interest to both Administration and the Committee.

We will inform the Committee and Administration of any significant deficiencies in internal controls that are identified in the course of conducting the audit.

© Deloitte LLP and affiliated entities.

Developing our audit plan in coordination with The City Auditor

We recognize that it is important for us to coordinate our activities with The City Auditor and to create a cooperative, mutually supportive and open relationship with them. A key element in our preliminary planning stage will be the review and consideration of the work plan for audits expected to be performed by The City Auditor's office in the present year. This review will be helpful in assisting us to determine our overall preliminary audit approach, and to gain additional insight into current issues and topical matters facing The City. We intend to meet with The City Auditor as part of our audit planning activities and on a regular basis throughout the audit cycle to facilitate an effective and efficient coordination of our activities and sharing of information.

Audit scope uncertainty

Our audit service plan is based on several assumptions. Circumstances may arise during the engagement that could significantly affect the scope, extent and timing of our audit procedures. These circumstances may include, but are not limited to:

- A deterioration in the quality of The City's accounting records during the current year engagement compared to the prior year engagement;
- The identification of significant deficiencies in The City's internal control that result in the expansion of our audit procedures;
- The identification, during our audit, of a significant level of proposed audit adjustments; and
- The occurrence of significant new issues or changes, such as:
  - New accounting issues;
  - Changes in accounting policies or practices from those used in prior years;
  - Events or transactions not contemplated in our budget;
  - Changes in The City's financial reporting process or IT systems;
  - Changes in The City's accounting personnel, their responsibilities, or their availability;
  - Changes in auditing standards;
  - Significant adjustments to TCA accounts and balances;
  - Changes in The City's use of experts or specialists and/or their work product does not meet the qualifications that Canadian GAAS require for us to be able to use their work; and
  - Changes in the audit scope caused by events that are beyond our control.

If any of these or similar such circumstances arise during the course of our audit we will discuss them on a timely basis with Administration and provide the Committee with a report regarding the impact on our audit at its next scheduled meeting. Matters that we consider to be significant and that may be sensitive from a reporting timing perspective will be communicated immediately to the Chair of the Committee.

© Deloitte LLP and affiliated entities.

Audit fees

We focus our activities and make every effort to optimize the efficiency of our audit

We recognize and are sensitive to your concerns about managing costs. Therefore, we will maximize the efficiency of our audit by focusing on risk areas and coordinating our activities with Administration. Furthermore, our current audit plan builds upon the successes achieved in the 2015 year-end audit.

We have challenged our professionals to identify engagement efficiencies and considered their suggestions when developing our audit plan.

The following fee estimate is preliminary and may be adjusted based on the final scope of our audit and our final determination of the audit procedures that we consider necessary to enable us to express an opinion on the financial statements. Our anticipated level of work and the associated fee estimate do not include the effect of any regulatory or other changes to existing auditing and accounting standards yet to be issued. We will seek the Committee's pre-approval before commencing the additional procedures arising from these unexpected changes.

The 2016 estimated fees are as follows:	Current year *	Previous year *
Audit fees		
The City of Calgary consolidated financial statement audit	$258,500	$252,200
Municipal Information Return	$4,400	$4,300
Funds Held in Trust Audit	$1,700	$1,650
Newspaper insert (summarization of The City's financial information)	Included in the City of Calgary Audit fee	Included in the City of Calgary Audit fee
PS 3260, *Liability for contaminated sites*	$10,000	$15,000
Operating effectiveness testing of the local improvement revenue information technology systems (TOOLS and LIL)	-	$15,000
Review of implementation of TCA Buildings and Engineered Structures (2015 – Machinery and Equipment) policies and procedures on a prospective basis	$17,500	$10,000
Review of agreements and accounting implications of P3 Agreement – Stoney Transit Facility anticipated date of September 13, 2016	$24,500	-
Review of agreements and accounting implications of P3 Agreement – Composting Facility Project dated June 25, 2015	$14,500	$10,000
Audit procedures on related authorities for consolidation purposes	$16,500	$12,000
TCA prior period adjustments (if applicable)	TBD	$35,000
Additional audits as requested by Administration and the Audit Committee up to approval limit	$25,000	$25,000
Total	**$372,600**	**$380,150**

* These fees exclude the 7% administrative charge and GST.

© Deloitte LLP and affiliated entities.

Related parties and other audits

Summary of engagement timing and estimated fees – December 31, 2016

Entity	Reporting entity relationship	Estimated audit completion	Estimated 2016 audit fee***	2015 audit fee
The City of Calgary consolidated	City of Calgary Audit Committee	April 2017	$258,500	$252,200
Calgary Municipal Land Corporation	Calgary Municipal Land Corporation Audit Committee	April 2017	$49,200	$48,000
Calgary Parking Authority	Calgary Parking Authority Audit Committee	March 2017	$85,075	$83,000**
Calgary Public Library	Calgary Public Library Finance and Audit Committee	March 2017	$37,825	$36,900
Calhome Properties Ltd.	Calhome Properties Ltd. Audit Committee	March 2017	$74,620	$72,800
Calgary Police Service	Calgary Police Commission	May 2017*	$47,250	$46,100
TELUS Convention Centre	TELUS Convention Centre Audit Committee	May 2017*	$39,925	$38,950
ENMAX Corporation	ENMAX Audit Committee	March 2017	$364,825	$355,925
Elected Officials Pension Plan	Pension Governance Committee	May 2017	$6,970	$6,800
Supplementary Pension Plan	Pension Governance Committee	May 2017	$13,225	$12,900
Municipal Employees Benefits Association of Calgary	Executive Committee of Municipal Employees Benefits Association of Calgary	April 2017	$24,190	$23,600
Family & Community Support Services	City of Calgary Administration	April 2017	$18,950	$18,500
Municipal Information Return	City of Calgary Administration	April 2017	$4,400	$4,300
Funds Held in Trust	City of Calgary Administration	April 2017	$1,700	$1,650
Core Benefit Plan	Audit to be completed every four years – next audit will be fiscal 2018	-	-	-
		Total	**$1,026,655**	**$1,001,625**

* Fieldwork for these entities will be completed by March 2017.

** Report under International Financial Reporting Standards.

*** The fee estimate is an increase of 2.5% over the 2016 audit fee. The fees exclude the 7% Administrative charge and GST.

Consolidation

For the purposes of The City's consolidated financial statements, each reporting entity is required to provide their final internal financial statements to Administration prior to completion of the consolidated audit. The timing of our audit procedures is planned for completion prior to the anticipated final auditor's report for The City. Our final auditor's reports are presented to each reporting entity at their respective Audit Committee meetings.

© Deloitte LLP and affiliated entities.

Appendix 1 – The Deloitte risk-based audit approach

A consistent approach that supports a dynamic environment

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 City.

These steps are not necessarily sequential nor are they mutually exclusive. For example, once we've developed our audit plan and the audit is being performed, we may become aware of a risk that was not identified during the planning phase. Based on that new information, we would reassess our planning activities and adjust the audit plan accordingly.

© Deloitte LLP and affiliated entities.

1. Initial planning

The Deloitte audit approach begins with an extensive planning process that includes:

- Assessing your current business and operating conditions;
- Understanding the composition and structure of your business and organization;
- Understanding your accounting processes and internal controls;
- Understanding your information technology systems;
- Identifying potential engagement risks;
- Planning the scope and timing of internal control and substantive testing that take into account the specific identified engagement risks; and
- Coordinating our activities with external parties and experts.

Understanding your business and accounting processes

Our audit will take into account specific items of particular interest raised by the Committee as well as areas of concern identified by the Committee or Administration.

2. Assessing and responding to engagement risk

Our audit approach combines an ongoing identification of risks with the flexibility to adjust our approach when additional risks are identified. Since these risks may impact our audit objectives, we consider materiality in our planning to focus on those risks that could be significant to your financial reporting.

Risk assessment

The risks that we have identified to date, and which will be addressed when conducting the audit, are summarized in the Audit Scope section. As we perform our audit, we will update our risk assessment and will inform the Committee and Administration of any significant changes to our risk assessment and any additional risks that are identified.

Consideration of the risk of fraud

We are required to consider the risk of fraud in the context of the financial statements as a whole, and in accordance with Canadian GAAS are required to perform certain procedures relating to fraud as part of our annual audit. Given the nature of The City's operations being a government organization, the risk of fraud is largely limited to financial reporting fraud, which we regard as inherently low risk but still requires a certain level of focus.

Fraudulent acts include the deliberate failure to record transactions, forgery of records and documents and intentional misrepresentations made to our audit engagement team. Fraud may include intentional acts by Administration or employees acting on behalf of The City, as well as employee fraud if Administration or employees are involved in actions that defraud The City. Deloitte does not assume that Administration is dishonest nor do we assume unquestioned honesty. Rather, in accordance with Canadian GAAS, we exercise professional scepticism and recognize that the conditions we observe and evidential matter we obtain, including that obtained from prior audit engagements, need to be objectively evaluated to determine whether the Financial Statements are presented fairly in all material respects.

Maintaining an attitude of professional scepticism means that we carefully consider the reasonableness of the responses we receive to our inquiries from those charged with governance, and evaluate other information obtained from them in light of the evidence we obtain during the audit. When we identify a misstatement or control deficiency, we consider whether it may be indicative of fraud and what the implications of fraud and significant error are in relation to other aspects of the audit, particularly the reliability of Administration representations.

Because of the inherent limitations of internal control over financial reporting ("ICFR"), including the possibility of collusion or improper Administration override of controls, it is possible that material misstatements due to error or fraud may not be prevented or detected on a timely basis. Accordingly, the assurance an auditor provides concerning the lack of misstatements arising from fraud is necessarily lower than the assurance provided concerning those arising from an error.

© Deloitte LLP and affiliated entities.

Consideration of fraud

The following table explains our respective responsibilities towards fraud.

Your responsibilities	Our responsibilities
• The primary responsibility for the prevention and detection of fraud rests with Administration and the Committee, including the responsibility for establishing and maintaining internal controls over the reliability of financial reporting, ensuring the effectiveness and efficiency of operations, the identification of fraud risks and compliance with applicable laws and regulations.	• We are required to obtain representations from Administration regarding internal controls, assessment of risk and any known or suspected fraud or misstatement. • As independent auditors, we will obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

In determining our audit strategy to address the assessed risks of material misstatement due to fraud, we will:

- Assign and supervise personnel, taking into account the knowledge, skill and ability of individuals with significant engagement responsibilities and our assessment of the risks of material misstatement due to fraud for the engagement;
- Evaluate whether The City's selection and application of accounting policies, particularly those related to subjective measurements and complex transactions, may be indicative of fraudulent financial reporting resulting from Administration; and
- Incorporate an element of unpredictability when selecting the nature, timing and extent of our audit procedures.

We will inquire directly of the Committee regarding:

- Its views about the risk of fraud;
- Whether it has knowledge of any actual or suspected fraud affecting The City; and
- The role it exercises in the oversight of fraud risk assessment and the establishment of mitigating controls.

We will also inquire if the Committee is aware of tips or complaints regarding The City's financial reporting (including those received through the Committee's internal whistleblower program) and, if so, the Committee's responses to such tips and complaints.

If we suspect fraud involving Administration, we will communicate these suspicions to the Committee and discuss the nature, timing and extent of audit procedures necessary to complete the audit.

Information technology

An important part of our audit planning process involves gaining an understanding of:

- The importance of the computer environment relative to the risks to financial reporting;
- The way in which that environment supports the control procedures we intend to rely on when conducting our audit; and
- The computer-based information that supports our substantive procedures.

The objective of our review of computer controls is to identify potential areas of risk and assess the relevance, reliability, accuracy and completeness of the data produced by the systems. We also assess the operating effectiveness of the computer environment and determine the reliability of the financial information used to generate the Financial Statements. To accomplish this, we gain an up-to-date understanding of The City's computer processing environment and our understanding of the relevant general computer controls. We then conduct tests to support our conclusion on the operating effectiveness of controls considered relevant to the audit.

© Deloitte LLP and affiliated entities.

We will assess the design and effectiveness of general computer controls in the following areas:

- Data centre and network operations;
- System software acquisition, change and maintenance;
- Program change;
- Access security; and
- Application system acquisition, development and maintenance.

The City currently operates PeopleSoft version 9.1 for their Human Resources module ("HCM") and financial module ("FSCM") and version 9.0 for their Client Relationship Management module ("CRM"). The most up to date version available from PeopleSoft is 9.2. A new employee portal (myHRconnect) began in 2016.

The HCM module underwent an upgrade in 2011 and the FSCM module underwent an upgrade in 2012. The City implemented the e-Bill Payment (a new module as part of FSCM) in 2013. Current plans are for HCM and CRM to be upgraded to version 9.2 in 2017.

Windows 7 is currently the primary desktop operating system used on The City's computers, with a significant deploy of Windows 10, and migration to Windows 10 over the next 3 years.

3. Developing and executing the audit plan

The performance of an audit includes evaluating the design and determining the implementation of internal controls relevant to the audit, testing the operational effectiveness of the controls we intend to rely on, and performing substantive audit procedures.

Audit procedures

The timing of our audit procedures is dependent upon a number of factors including the need to coordinate with Administration for the provision of supporting analysis and other documentation. Generally, we perform our audit procedures to allow us sufficient time to identify significant issues early, thereby allowing more time for analysis and resolution.

For example, we anticipate performing audit procedures on account balances and disclosures involving significant and complex transactions or adoption of new accounting pronouncements, as they occur.

Tests of controls

As part of our audit, we will review and evaluate certain aspects of the systems of ICFR to the extent we consider necessary in accordance with Canadian GAAS. The main objective of our review is to enable us to determine the nature, extent and timing of our audit tests and establish the degree of reliance that we can place on selected controls. An audit of the financial statements is not designed to determine whether internal controls were adequate for Administration's purposes or to provide assurance on the design or operational effectiveness of ICFR.

The extent to which deficiencies in internal control may be identified through an audit of financial statements is influenced by a variety of factors including our assessment of materiality, our preliminary assessment of the risks of material misstatement, our audit approach and the nature, timing and extent of the auditing procedures that we conduct. Accordingly, we gain only a limited understanding of controls as a result of the procedures that we conduct during an audit of financial statements.

We will inform the Committee and Administration of any significant deficiencies that are identified in the course of conducting the audit.

© Deloitte LLP and affiliated entities.

Substantive audit procedures

Our substantive audit procedures consist of a tailored combination of analytical procedures and detailed tests of transactions and balances. These procedures take into account the results of our controls tests and are designed to enable us to obtain reasonable assurance that the Financial Statements are free from material misstatements. To obtain this assurance, misstatements that we identify while performing substantive auditing procedures will be considered in relation to the Financial Statements as a whole. Any misstatements that we identify, other than those that are clearly trivial (the threshold has been set at $2,700,000) will be reported to Administration and the Committee. In accordance with Canadian GAAS, we will request that misstatements be corrected.

4. Reporting and assessing performance

Perform post-engagement activities

We will analyze the results of the audit procedures performed throughout the year and, prior to rendering our report, we will conclude whether:

- The scope of the audit was sufficient to support our opinion; and
- The misstatements identified during the audit do not result in financial statements being materially misstated.

Complete engagement reporting

After the satisfactory completion of appropriate audit procedures, we will provide an audit report on your Financial Statements.

We also provide reports to the Committee to assist it in fulfilling its responsibilities as required by applicable auditing standards. Appendix 5 summarizes the required communications between Deloitte and the Committee.

Deloitte's client service principles include providing Administration and the Committee with insights into the condition of the business and offering meaningful suggestions for improvement. We will report these insights and suggestions to the appropriate members of Administration and/or the Committee for their consideration.

To enable us to determine how well we have achieved our client service objectives, including an assessment of the quality of our audit engagement, we actively solicit feedback from our clients. This feedback will be obtained either through meetings with members of the Committee and Administration or their completion of questionnaires.

Deloitte enjoys a solid reputation for our **commitment to quality**. Key factors supporting that reputation include:

- A strong tone at the top
- A comprehensive ethics and compliance program
- An uncompromising approach to quality in client service
- Communication of and adherence to professional standards and client service principles
- A mature client feedback program
- A multifaceted approach to monitoring independence
- A robust technical consultation approach
- National office consultation on areas of high risk or that require significant judgment
- Technical training for our professionals
- An annual internal inspection process for audit engagements
- Continuous improvement based on lessons learned and client feedback

Your feedback enhances our understanding of your expectations of us through your evaluation of our performance. The information you provide helps us refine our client service objectives to ensure that we remain focused, responsive and proactive in meeting your needs while fulfilling our professional responsibilities.

5. Leveraging technology

Our audit approach utilizes fully automated, paperless audit software where information and supporting schedules are prepared and exchanged electronically. Our audit software facilitates leveraging what The City already prepares as part of account analysis and financial closings and allows us to share files and work papers with our engagement team members. We use other web-based connectivity tools and file interrogation software to quickly and comprehensively analyze data.

© Deloitte LLP and affiliated entities.

Our audit software supports the full lifecycle of an audit engagement. The proprietary software we use is globally connected and allows for real-time tracking, ultimately providing better status reporting to our clients. Our software leverages industry guidance and knowledge so that we tailor our approach in a meaningful way to reflect the nuances of our clients' businesses. Our ability to customize our software to each client's specific situation enables us to have more engaging business conversations. In addition, our software allows us to track findings and observations noted throughout the course of our audit, enabling us to provide our clients with more meaningful insights and discuss any issues as they arise with fewer surprises.

The tools described in the following table help us determine our audit scope, prepare consistent audit work papers and files, conduct analytical procedures, select data for testing, accumulate audit results and monitor progress to provide for the timely completion of tasks. In addition, we intend to make full use of The City's own technologies to gain further efficiencies.

Technology	Description	Benefits
DeloitteAudit System	Deloitte's audit software, incorporating audit-specific templates, reference materials, support documents and Administration insights	Rapid and effective electronic transfer of information among the audit team members
Journal Entry Data Analysis Routines (JEDAR) and Journal Entry Tool (JET)	Exploratory data analysis (JEDAR) and file interrogation procedures (JET) are used to profile journal entry populations, with the objective of identifying journal entries of interest with respect to Administration override of controls	Helps audit teams focus more effectively on high-risk areas for fraud in journal entry testing analysis. Reduces the time necessary to perform profiling and allows for testing that could not have been conducted manually
Audit Command Language (ACL)	Market-leading technology for data inquiry, analysis and reporting	Allows unconstrained analysis of your data files
Deloitte Technical Library	A comprehensive online compilation of accounting and financial disclosure literature that allows Deloitte to research specific accounting issues and functions through access to authoritative literature from pertinent regulatory bodies, as well as our own interpretations and guidance	The extensive accounting and reporting guidance helps support the quick and efficient research of complex accounting matters
Statistical Techniques for Analytical Review (STAR)	A tool that helps us understand relationships between accounts and how they compare and contrast to independent data by use of mathematical regression analysis	Allows effective testing of large data sets where there are historical relationships, such as for sales and cost of sales information. Testing with STAR takes a fraction of the time that traditional procedures require
Deloitte OnLine	A secure, interactive knowledge-sharing and project collaboration platform for our engagement teams and clients	Allows information, leading practices, and ideas to be disseminated. Supports efficient access, interactive productivity, and communication

Audit analytics

Traditional audit procedures depend on sampling large populations and many manual testing procedures. Embedding audit analytics in our audit strategy provides more insights into process improvements and data integrity as well as potentially identifying insights into the data that could not be gathered through traditional sampling methods. We plan to leverage audit analytics in our detailed testing of property taxes which will bring greater coverage and more precise focus on the most risky transactions by selecting all or a large part of the data, and profiling that data into risk categories and testing higher risk areas.

© Deloitte LLP and affiliated entities.

Appendix 2 – Draft engagement letter

July 21, 2016

Private and confidential

The Audit Committee of The City of Calgary
Councillor Richard Pootmans, Audit Committee Chair
The City of Calgary
PO Box 2100, Station M
Calgary, AB T2P 2M5

The City of Calgary
Mr. Eric Sawyer, Chief Financial Officer
PO Box 2100, Station M
Calgary, AB T2P 2M5

Dear Sirs/Mesdames:

Deloitte LLP ("Deloitte" or "we" or "us") is pleased to serve as your auditors for the year ending December 31, 2016. Mr. Trevor Nakka and Ms. Harman Gill will be responsible for the services that we perform for The City of Calgary ("The City"). They will, as considered necessary, call upon other individuals with specialized knowledge, either in this office or elsewhere in our firm to assist in the performance of our services.

In addition to the consolidated financial statement audit we are engaged to provide under this engagement letter, we would also be pleased to assist The City on issues as they arise throughout the year. Hence, we hope that you will call Mr. Nakka or Ms. Gill whenever you believe Deloitte can be of assistance. This assistance will require approval by The City's Audit Committee in accordance with its pre-approval policies and procedures.

We will perform this engagement subject to the terms and conditions set forth herein and in the accompanying appendices.

The objective and scope of the audit

You have requested that we audit the consolidated financial statements of The City (the "Financial Statements"), which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended, and notes to the financial statements. We will also perform an audit the Municipal Information Return, Funds Held in Trust and Newspaper Insert for the year ending December 31, 2016.

We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the Financial Statements.

Appendix A provides further information about the objective and scope of the audit.

© Deloitte LLP and affiliated entities.

The responsibilities of the auditor

We will conduct our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Administration, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, there is an unavoidable risk that some material misstatements may not be detected, even though the audit is properly planned and performed in accordance with Canadian GAAS.

In making our risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the Financial Statements 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 entity's internal control. However, we will communicate to you in writing concerning any significant deficiencies in internal control relevant to the audit of the Financial Statements that we have identified during the audit.

The audit of the Financial Statements by Deloitte does not relieve Administration or the Audit Committee of their respective responsibilities.

Appendix A provides more information about Deloitte's responsibilities in respect of the audit.

The responsibilities of Administration and identification of reporting framework

Our audit will be conducted on the basis that Administration, under the oversight of the Audit Committee, acknowledge and understand that they have responsibility:

- For the preparation and fair presentation of the Financial Statements in accordance with public sector accounting standards (“PSAS”);
- For such internal control as Administration determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error; and
- To provide us with:
    - Access to all information of which Administration is aware that is relevant to the preparation of the Financial Statements such as records, documentation and other matters;
    - Additional information that we may request from Administration for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

© Deloitte LLP and affiliated entities.

As part of our audit process, we will request from Administration written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

Administration's responsibilities in connection with this engagement are further described in Appendix B.

Use of third parties by Administration

Where Administration has engaged another party to assist it in fulfilling any of its responsibilities, Administration will continue to retain the responsibility for the preparation of its Financial Statements in accordance with PSAS.

Audit Committee's responsibilities and auditor communications

As auditors of The City, we report directly to the Audit Committee as it is directly responsible for the oversight of our work. We acknowledge that the Audit Committee is also responsible for recommending our appointment and compensation. The Audit Committee is also responsible for reviewing and approving The City's hiring policies regarding current and former partners and employees of Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

In accordance with Canadian GAAS, we are required to communicate with the Audit Committee about various matters in connection with our audit.

The Audit Committee's responsibilities and our communications with the Audit Committee are described in Appendix C.

Subscription services

Deloitte makes available to clients and non-clients, various educational, informational and other tools in the form of, among other things, newsletters, webcasts, podcasts, websites, database subscriptions, checklists, research reports, surveys and similar or related tools and services ("Subscriptions"). The City hereby confirms that any use or receipt by The City or its affiliates of these Subscriptions is approved by the Audit Committee in accordance with the Audit Committee's established pre-approval policies and procedures.

Inclusion of Deloitte reports in documents and public oral statements or references to Deloitte in other documents and on electronic sites

If The City intends to publish or otherwise reproduce in any document our report on The City's Financial Statements, or otherwise make reference to Deloitte in a document that contains other information in addition to the audited Financial Statements, thereby associating Deloitte with such document, The City agrees that its Administration will provide Deloitte with a draft of the document to read and obtain our written consent for the inclusion or incorporation by reference of our report, or the reference to Deloitte, in such document before the document is printed and distributed. No other form of document is to be considered to signify our consent. The inclusion or incorporation by reference of our report in any such document would constitute the re-issuance of our report. Administration agrees to provide adequate notice of the preparation of any such public documents. The City also agrees that it will notify us and obtain our written approval prior to including our report or financial statements with which we are associated on an electronic site. Further, it is agreed that in any electronic distribution, for example on The City's website, Administration is solely responsible for the accurate and complete reproduction of our report and the subject matter on which we reported.

© Deloitte LLP and affiliated entities.

This engagement letter, and our agreement to perform the services described in this engagement letter, does not constitute our consent to the use of our report in, or our agreement to be associated with any such documents published or reproduced by or on behalf of The City. Any request by The City to re-issue our report, to consent to its inclusion or incorporation by reference in an offering or other document, or to agree to its inclusion on an electronic site, will be considered based on the facts and circumstances existing at the time of such request.

Reporting

In accordance with Canadian GAAS, we expect to issue a report at the completion of our audit in the form shown in Appendix D. The form and content of our report may need to be amended in the light of our audit findings.

Our ability to express an opinion and the wording of our opinion will, of course, be dependent on the facts and circumstances at the date of our report. If, for any reason, we are unable to complete the audit or are unable to form or have not formed an opinion, we may decline to express an opinion or decline to issue a report as a result of this engagement. If we are unable to complete our audit or if our auditor's report requires modification, the reasons therefor will be discussed with the Audit Committee and The City's Administration.

Fees

We estimate that our total fees for this audit will be:

- $258,500 for the consolidated financial statement audit (including the audit of the newspaper insert);
- $4,400 for the audit of the Municipal Information Return;
- $1,700 for the audit of Funds Held in Trust;
- $10,000 for the audit of PS 3260 *Liability for Contaminated Sites*;
- $17,500 for the audit of work completed by The City on the implementation of new processes and policies relating to Tangible Capital Assets – buildings and engineered structures prospective application;
- $24,500 for the review of the agreements and accounting implications of P3 agreement – Stoney Transit Facility anticipated date of September 13, 2016;
- $14,500 for the review of the agreements and accounting implications of P3 agreement – Composting Facility Project dated June 25, 2015;
- $16,500 for audit procedures on the related parties for consolidation purposes;
- $25,000 for additional audits as requested by Administration and Audit Committee up to approval limit; and
- Fees to be determined for TCA prior period adjustments, if applicable,

plus reasonable expenses, a 7% administrative charge and applicable taxes (such as Goods and Services Tax). These fees are based upon our understanding of the engagement scope as outlined in this letter. Deloitte will invoice The City on a regular basis. All invoices shall be due and payable when rendered.

Appendix E provides an estimated timetable for the services included in this engagement letter and the responsibilities of both Deloitte and The City's Administration with respect to the successful completion of the engagement. Deloitte will monitor all work and assess fees (time and expenses) as they are incurred throughout the engagement.

If circumstances arise, such as those described in Appendix F, and as a result the fees for any of the services outlined are likely to be greater than indicated due to the need for additional work, we will contact you to discuss the reason and seek your approval for this additional work.

Other matters

This engagement letter, including the appendices A through G attached hereto and made a part hereof, constitutes the entire agreement between the parties with respect to this engagement and supersedes all other prior and contemporaneous agreements or understandings between the parties, whether written or oral, relating to this engagement.

© Deloitte LLP and affiliated entities.

This engagement letter will continue in force for subsequent audits unless amended by the mutual consent of ourselves and The City.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the Financial Statements including our respective responsibilities.
Yours truly,

Chartered Professional Accountants, Chartered Accountants

Enclosure

The services and terms set forth in this letter are acknowledged and approved by the Audit Committee:
The City Of Calgary

_____
Signature

_____
Title

The services and terms set forth in this letter are accepted and agreed to by Administration:
The City Of Calgary

_____
Signature

_____
Title

© Deloitte LLP and affiliated entities.

Appendix A
The objective and scope of a financial statement audit and the responsibilities of the auditor

The City of Calgary
December 31, 2016

The objective and scope of a financial statement audit

We will plan and perform the audit to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error. The Financial Statements subject to audit are those of The City, prepared by Administration, with oversight from the Audit Committee. The audit will enable us to express an opinion on whether the Financial Statements are fairly presented, in all material respects, in accordance with PSAS. The audit also includes evaluating the appropriateness of accounting policies and the reasonableness of accounting estimates made by Administration, as well as evaluating the overall presentation of the Financial Statements. Our report on the Financial Statements and communications required by Canadian GAAS will be in accordance with our findings.

It is important to recognize that there are inherent limitations of an audit, where most of the audit evidence obtained is of a persuasive, rather than a conclusive nature. These limitations arise from the nature of financial reporting, the nature of audit procedures and the need for the audit to be conducted within a reasonable period of time and at a reasonable cost.

Financial reporting involves judgment by Administration in applying the requirements of PSAS to the facts and circumstances of The City. Many financial statement items will involve a degree of uncertainty, and there may be a range of acceptable interpretations or judgments that may be made.

The audit procedures we perform will be selected based on our judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. Because of the nature of fraud, including attempts at concealment and forgery, an audit designed and executed in accordance with Canadian GAAS may not detect a material fraud.

The performance of the audit within a reasonable period of time and at a reasonable cost requires us to plan the audit so that it will be performed in an effective manner, with audit effort directed to areas most expected to contain risks of material misstatement, whether due to fraud or error, and using selective testing and other means of examining populations for misstatements and drawing conclusions thereon.

Internal control over financial reporting

An independent audit conducted by Deloitte in accordance with Canadian GAAS is not a substitute for the maintenance of internal control necessary for the preparation of financial statements by Administration. Administration's acknowledgment of its responsibility for the maintenance of internal control necessary for the preparation of financial statements does not imply that Deloitte will find that the internal control maintained by Administration has achieved its purpose or will be free of deficiencies.

We obtain an understanding of internal control relevant to the audit however, not all controls are relevant to every audit. We evaluate the design of controls relevant to the audit and determine whether they have been implemented. We are not, however, required to determine whether relevant controls are operating effectively. Although it is not required by Canadian GAAS, we may decide that for a particular engagement, it makes sense to rely on the effective operation of some controls in determining the substantive procedures we will perform. In this case, we would go beyond evaluating the design of relevant controls and determining whether they have been implemented, to also test whether the controls on which we intend to rely are operating effectively. Accordingly, while Canadian GAAS requires us to report to the Audit Committee any significant deficiencies that have come to our attention, we may not be aware of all significant deficiencies in internal control that do, in fact, exist.

© Deloitte LLP and affiliated entities.

Appendix B
Administration's responsibilities
The City of Calgary
December 31, 2016

Financial statements and the effectiveness of internal control over financial reporting

The City's internal control, including its accounting books and records or accounting systems, will reflect the needs of Administration, the complexity of its businesses, the nature of its risks and relevant laws or regulation. Administration must determine what internal control is required, including how it is designed, implemented and maintained to achieve The City's objectives. Internal control, no matter how effective, can provide The City with only reasonable assurance about achieving its financial reporting objectives due to the inherent limitations of internal control.

The preparation and overall accuracy of the Financial Statements and their fair presentation in accordance with PSAS together with all required disclosures concerning internal control over financial reporting, is the responsibility of The City's Administration. Among other things, Administration has the responsibility for:

1. Establishing and maintaining effective internal control over financial reporting necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and informing Deloitte of deficiencies identified in the design or operation of internal control over financial reporting;

2. Informing Deloitte of any changes in The City's internal control over financial reporting that occurred during the year that have materially affected, or are reasonably likely to materially affect, The City's internal control over financial reporting;

3. Identifying and ensuring that The City complies with the laws and regulations applicable to its activities and informing us of any known material violations of such laws or regulations;

4. Adjusting the Financial Statements to correct material misstatements;

5. Safeguarding assets;

6. Providing to us all information of which Administration is aware that is relevant to the preparation of the Financial Statements including, but not limited to, all financial records and related data including information on the recognition, measurement and disclosure of specific items, and copies of all minutes of meetings of directors and committees of directors;

7. Providing additional information that we may request from Administration for the purpose of the audit;

8. Providing us with unrestricted access to persons within The City from whom we determine it necessary to obtain evidence; and

9. Informing Deloitte of facts that may affect the Financial Statements, of which Administration may become aware during the period from the date of the auditor's report to the date the Financial Statements are issued.

Representation letter

We will make specific inquiries of The City's Administration about the representations embodied in the Financial Statements and internal control over financial reporting. As part of our audit procedures, we will request that Administration provide us with a representation letter acknowledging Administration's responsibility for the preparation of the Financial Statements in accordance with PSAS and that the Financial Statements are fairly presented in accordance therewith.

We will ask Administration to affirm their belief that the effects of any uncorrected financial statement misstatements aggregated by us during the current audit engagement and pertaining to all the periods presented are immaterial,

© Deloitte LLP and affiliated entities.

both individually and in the aggregate, to the Financial Statements taken as a whole and that Administration has provided us with all relevant information and access as agreed in this engagement letter and has recorded and reflected all transactions in the Financial Statements.

We will require certain written representations from Administration in accordance with Canadian GAAS and will request additional representations to support other audit evidence relevant to the Financial Statements or one or more specific assertions therein. Those written representations are to be provided in the form of a representation letter addressed to Deloitte, as near as practicable to, but not after, the date of the auditor's report on the Financial Statements. Such representations will be for all financial statements and periods referred to in the audit report.

The responses to inquiries and related written representations of Administration required by Canadian GAAS are part of the evidential matter that we will rely on as auditors in forming our opinion on The City's Financial Statements.

Independence matters

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

Independence matters as a result of restrictions on providing certain services

In connection with our engagement, Deloitte, Administration, and the Audit Committee will assume certain roles and responsibilities in an effort to assist Deloitte in maintaining independence and ensuring compliance with Canadian independence rules. Deloitte will communicate to its partners and employees that The City is an attest client. Administration of The City will ensure that The City, together with its subsidiaries and other entities (including variable interest entities) that comprise The City for purposes of the Financial Statements, has policies and procedures in place for the purpose of ensuring that neither The City nor any such subsidiary or other entity will act to engage Deloitte or accept from Deloitte any service that under Canadian independence rules or other applicable rules would impair Deloitte's independence. All potential services are to be discussed with Mr. Nakka or Ms. Gill.

Independence matters relating to hiring

Deloitte must assess threats to independence created when a former Deloitte partner or member of the engagement team is employed by Administration. In order to assist Deloitte in maintaining independence, Administration should notify Mr. Nakka or Ms. Gill where substantive employment conversations have been had with a former or current Deloitte partner or engagement team member.

Fraud and error

Administration is responsible for:

1. Designing and implementing programs and controls to prevent and detect fraud and error;
2. Informing us about all known or suspected fraud affecting The City involving (a) Administration, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the Financial Statements;
3. Informing us of its knowledge of any allegations of fraud or suspected fraud affecting The City received in communications from employees, former employees, or others;
4. Informing us of any information it might have regarding any concerns or allegations of potential errors in the selection of accounting policies or the recording of transactions affecting The City that have been communicated to it by employees, former employees, or others, whether written or oral;
5. Informing us of its assessment of the risk that the Financial Statements may be materially misstated as a result of fraud; and

© Deloitte LLP and affiliated entities.

6. Communicating its belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole.

Related parties

The City agrees that it will provide us with the identity of The City's related parties, including changes from the previous period, the nature of the relationships between The City and these related parties and whether The City entered into any transactions with these related parties during the period and if so, the type and purpose of the transactions.

© Deloitte LLP and affiliated entities.

Appendix C
Audit Committee responsibilities and auditor communications
The City of Calgary
December 31, 2016

Audit Committee responsibilities

The Audit Committee is responsible for the oversight of the financial reporting process, including Administration's preparation of the Financial Statements and monitoring of The City's internal control related to financial reporting and oversight of our work.

Communications with the Audit Committee

Canadian GAAS require that we communicate with the Audit Committee about a number of matters that are relevant to the financial reporting process.

Significant findings from the audit

We will communicate our views about significant qualitative aspects of The City's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Should the need arise, we will communicate to the Audit Committee why we would consider a significant accounting practice that may be acceptable under PSAS, not to be the most appropriate to the particular circumstances of The City.

We will communicate, in writing, any significant deficiencies in internal control that we identify on the basis of the audit work performed. The purpose of our audit is to express an opinion on the Financial Statements. While the audit will include consideration of internal control relevant to the preparation of the Financial Statements in order to design audit procedures appropriate in the circumstances, it was not performed to express an opinion on the effectiveness of internal control.

In addition, we will communicate:

- any significant matters arising from the audit in connection with The City's related parties;
- any events or conditions identified that may cast doubt on The City's ability to continue as a going concern;
- any significant difficulties encountered during the audit;
- any significant matters arising from the audit that were discussed or subject to correspondence with Administration;
- written representations we are requesting;
- any material uncorrected inconsistencies or misstatements in fact we identify from reading the financial and non-financial information that are included in a document containing audited financial statements and our auditor’s report; and
- any other matters that in our professional judgment are significant to the oversight of the financial reporting process.

Independence communications

In accordance with professional standards, we will disclose to the Audit Committee, in writing, all relationships between Deloitte and The City and its related entities, that in our professional judgment may reasonably be thought to bear on our independence and confirm to the Audit Committee in such letter whether, in our professional judgment, we are independent of The City within the meaning of the rules of professional conduct / code of ethics of

© Deloitte LLP and affiliated entities.

our profession. For purposes of this paragraph, “Deloitte” shall mean Deloitte LLP and Deloitte Touche Tohmatsu Limited, including related member firms and affiliates.

Fraud, error and illegal acts

If items of the following nature come to our attention, and in our judgment need to be reported to those charged with governance, we will report them directly to the Audit Committee:

1. Any fraud that involves Administration;
2. Any fraud involving employees who have significant roles in internal control;
3. Any fraud of which we become aware that has resulted or could result in a material misstatement of the Financial Statements;
4. Any other matters related to fraud, which in our judgment, are relevant to the responsibilities of the Audit Committee;
5. Instances of identified or suspected non-compliance with laws and regulations, other than when the matters are clearly inconsequential;
6. Individual uncorrected misstatements identified by us during the audit that were determined by Administration to be immaterial, both individually and in the aggregate, to the Financial Statements taken as a whole;
7. Uncorrected misstatements related to prior periods in the relevant classes of transactions, account balances or disclosures and the Financial Statements taken as a whole;
8. Questions regarding the honesty and integrity of Administration;
9. Matters that may cause future financial statements to be materially misstated; and
10. Significant misstatements resulting from error that were corrected by Administration.

We will also be making inquiries of the Audit Committee of any actual, suspected or alleged fraud affecting The City and whether The City is in compliance with laws and regulations that may have a material effect on the Financial Statements.

We will inform the appropriate level of Administration of The City and determine that the Audit Committee is adequately informed with respect to illegal acts that have been detected or have otherwise come to our attention in the course of our audit, unless the illegal acts are clearly inconsequential.

The matters communicated will be those that we identify during the course of our audit. Our audit would not identify all matters that may be of interest to Administration or the Audit Committee in discharging its responsibilities. Communication with the appropriate level of authority in the organization’s Administration and with those charged with governance will be determined by the type and significance of the matter to be communicated.

We will also make inquiries of the Audit Committee as to whether any subsequent events have occurred that may affect the Financial Statements, including matters discussed at meetings of the Audit Committee after December 31, 2016.

© Deloitte LLP and affiliated entities.

Appendix D
Expected form of audit report
The City of Calgary
December 31, 2016

We will provide you with our report on the Financial Statements, which is expected to be in the following form. However, the final form will reflect the results of our audit.

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of The City of Calgary, which comprise the consolidated statement of financial position as at December 31, 2016 and the consolidated statements of operations and accumulated surplus, cash flows and changes in net financial assets for the year then ended and notes to the financial statements.

Administration's Responsibility for the Consolidated Financial Statements

Administration is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as Administration determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Administration, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

© Deloitte LLP and affiliated entities.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of The City of Calgary as at December 31, 2016, and the results of its operations, cash flows and changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

(To be signed Deloitte LLP)

Chartered Professional Accountants, Chartered Accountants
•, 2017

Appendix E
Coordination of the audit
The City of Calgary
December 31, 2016

Deloitte and The City will develop and maintain an up-to-date work plan that will govern the specific involvement, activities, work products and schedules of all individuals involved in this engagement, including those in the employ of Deloitte, The City and third parties, and regardless of whether the individuals have been assigned to the engagement by Deloitte, The City or a third party.

Deloitte's responsibilities

We will plan the performance of our audit in accordance with the estimated timetable outlined below. We will communicate to Administration on a regular basis concerning the status of the engagement. Should we anticipate any changes to our proposed fees, the scope of the engagement, the nature of our report or other planned deliverables, we will contact and advise Administration of the nature of these changes.

	Estimated to begin	Targeted for completion
Audit performance schedule:		
Planning and interim procedures	August and November 2016	
Year End Audit procedures	March 2017	April 2017
Auditor communications:		
Independence matters		April 2017
Report on audit, including all required communications		April 2017

Administration's responsibilities

Administration will provide all documentation, as requested by Deloitte, in an accurate and timely fashion.

© Deloitte LLP and affiliated entities.

Appendix F
Circumstances affecting timing and fee estimate
The City of Calgary
December 31, 2016

The fees quoted for the audit are based on certain assumptions. Circumstances may arise during the engagement that may significantly affect the targeted completion dates and our fee estimate. As a result, additional fees may be necessary. Such circumstances include, but are not limited to, the following:

Audit facilitation

1. Changes to the timing of the engagement at The City's request. Changes to the timing of the engagement usually require reassignment of personnel used by Deloitte in the performance of services hereunder. However, because it is often difficult to reassign individuals to other engagements, Deloitte may incur significant unanticipated costs.

2. All audit schedules are not (a) provided by The City on the date requested, (b) completed in a format acceptable to Deloitte, (c) mathematically correct, or (d) in agreement with the appropriate Organization records (e.g., general ledger accounts). Deloitte will provide The City with a separate listing of required schedules, information requests, and the dates such items are needed.

3. Significant delays in responding to our requests for information such as reconciling variances or providing requested supporting documentation (e.g., invoices, contracts, and other documents).

4. Deterioration in the quality of The City's accounting records during the current year engagement in comparison with the prior-year engagement.

5. A completed trial balance, referenced to the supporting analyses, schedules and Financial Statements, is not provided timely by The City.

6. Draft Financial Statements with appropriate supporting documentation are not prepared accurately and timely by The City's personnel.

7. Electronic files in an appropriate format and containing the information requested are not provided by The City on the date requested for our use in performing file interrogation. Deloitte will provide The City with a separate listing of the required files and the dates the files are needed.

8. The engagement team, while performing work on The City's premises, is not provided with access to the Internet for purposes of conducting the engagement.

Significant issues or changes

1. Significant deficiencies are identified in The City's internal control that result in the expansion of our audit procedures.

2. A significant level of proposed audit adjustments is identified during our audit.

3. A significant number of drafts of the Financial Statements are submitted for our review or we identify a significant level of deficiencies in the draft Financial Statements.

4. Significant new issues or changes arise as follows:

    a. New accounting issues.

    b. Changes in accounting policies or practices from those used in prior years.

© Deloitte LLP and affiliated entities.

c. Events or transactions not contemplated in our budgets.

d. Changes in The City's financial reporting process or IT systems.

e. Changes in The City's accounting personnel, their responsibilities, or their availability.

f. Changes in auditing standards.

g. Change in The City's use of specialists or the specialists and / or their work product does not meet the qualifications required by Canadian GAAS for our reliance upon their work.

5. Changes in audit scope caused by events that are beyond our control.

© Deloitte LLP and affiliated entities.

Appendix G
General business terms
The City of Calgary
December 31, 2016

The following general business terms (the "Terms") apply to the engagement except as otherwise provided in the specific engagement letter agreement (the "engagement letter") between Deloitte LLP ("Deloitte") and The City of Calgary ("The City") to which these Terms are attached.

1. **Timely performance** - Deloitte will not be liable for failures or delays in performance that arise from causes beyond Deloitte's control, including the untimely performance by The City of its obligations as set out in the engagement letter.

2. **Right to terminate services** - If The City terminates the engagement or requests that Deloitte resign from the engagement prior to its completion, The City will pay for time and expenses incurred by Deloitte up to the termination or resignation date together with reasonable time and expenses incurred to bring the services to a close in a prompt and orderly manner. Deloitte will not be responsible for any loss, cost or expense resulting from such termination or resignation. Should The City not fulfill its obligations set out herein or in the engagement letter, and in the absence of rectification by The City within thirty (30) days of notification in writing by Deloitte, upon written notification Deloitte may terminate its services immediately and will not be responsible for any loss, cost or expense resulting from such early termination.

3. **Fees and taxes** - Any fee estimates take into account the agreed-upon level of preparation and assistance from Organization personnel. Deloitte undertakes to advise Administration of The City on a timely basis should this preparation and assistance not be provided or should any other circumstances arise which cause actual time to exceed that estimate. The City is responsible for the payment of any applicable federal, provincial or other goods and services or sales taxes, or any other taxes or duties, in connection with the services provided by Deloitte.

4. **Expenses** - In addition to professional fees, The City will reimburse Deloitte for its reasonable out-of-pocket expenses including travel, meals and hotels incurred in connection with this engagement.

5. **Billing** - Invoices will be rendered periodically as agreed in advance. All invoices shall be due and payable when rendered. Interest shall be calculated at a simple daily rate of 0.0493% (equivalent to 18% per annum). Interest shall be charged and payable at this rate on any part of an invoice which remains unpaid from thirty (30) days after the invoice date to the date on which the outstanding invoice is paid. To the extent that as part of the services to be performed by Deloitte as described in the engagement letter, Deloitte personnel are required to perform the services in the United States of America ("U.S. Business"), The City and Deloitte agree to assign performance of the U.S. Business to Deloitte Canada LLP, an affiliate of Deloitte. All services performed by Deloitte Canada LLP shall be performed under the direction of Deloitte which shall remain responsible to The City for such services. Deloitte Canada LLP shall invoice The City with respect to the U.S. Business and Deloitte will invoice for services performed in Canada ("Canadian Business"). Payment for U.S. Business and/or Canadian Business can be settled with one payment to Deloitte.

6. **Governing law** - The engagement will be governed by the laws of the Province where Deloitte's principal office performing the engagement is located and all disputes related to the engagement shall be subject to the exclusive jurisdiction of the courts of such Province.

7. **Working papers** - All working papers, files and other internal materials created or produced by Deloitte related to the engagement are the property of Deloitte. In the event that Deloitte is requested by The City or required by subpoena or other legal or regulatory process to produce its files related to this engagement in proceedings to which Deloitte is not a party, The City will reimburse Deloitte for its professional time and expenses, including legal fees, incurred in dealing with such matters.

8. **Privacy** - Deloitte and The City acknowledge and agree that, during the course of this engagement, Deloitte may collect, use and disclose personal information about identifiable individuals ("Personal Information"). Deloitte's services are provided on the basis that The City has obtained any required consents for collection, use and

© Deloitte LLP and affiliated entities.

disclosure to Deloitte of Personal Information required under applicable privacy legislation. The City and Deloitte agree that Deloitte will collect, use, transfer, store, disclose or otherwise process Personal Information on behalf of The City solely for purposes related to completing this engagement, related engagements, or providing services to The City or as otherwise permitted by these Terms.

9. **Third parties** - Deloitte's engagement is not planned or conducted in contemplation of or for the purpose of reliance by any third party (other than The City and any party to whom Deloitte's audit report is addressed) or with respect to any specific transaction. Therefore, items of possible interest to a third party will not be addressed and matters may exist that would be assessed differently by a third party, possibly in connection with a specific transaction.

10. **Confidentiality** - To the extent that, in connection with this engagement, Deloitte comes into possession of Personal Information or any proprietary or confidential information of The City (collectively, "Confidential Information"), Deloitte will not disclose such information to any third party without The City's consent, except:

    (a) as may be required or permitted by legal authority, the rules of professional conduct/code of ethics;

    (b) to Deloitte Entities (as such term is defined below in section 12), component auditors, permitted subcontractors and third parties that provide services to Deloitte; or

    (c) to the extent that such information shall have otherwise become publicly available.

    Confidential Information may be used, processed and stored outside Canada by Deloitte, Deloitte Entities, component auditors and third party service providers. Deloitte is responsible to The City for causing Deloitte Entities, component auditors and third party service providers to comply with the obligations of confidentiality set out in this section. Confidential Information may be subject to disclosure in accordance with laws applicable in the jurisdiction in which the information is processed or stored, which laws may not provide the same level of protection under Canadian law. The City also agrees that Deloitte may aggregate Confidential Information and use and disclose that information as part of research and advice, including, benchmarking services, provided that all such information will be rendered anonymous and not subject to association with the Client.

    Except as instructed otherwise in writing, each party consents to properly addressed fax, email (including email exchanged via Internet media) and voicemail communication of both sensitive confidential and non-sensitive documents, information and other communications concerning this Agreement, as well as other means of communication used or accepted by the other. It is recognized that the Internet may be insecure and each party will be responsible for protecting its own systems and interests and, to the fullest extent permitted by law, will not be responsible to the other on any basis (contract, tort or otherwise) for any loss, damage or omission in any way arising from the use of the Internet or from access by any Client or Deloitte personnel, including personnel of Deloitte Entities and third parties that provide services to Deloitte, to networks, applications, electronic data or other systems of the other party.

11. **Assignment** - Except as provided below in section 12, no party may assign, transfer, or delegate any of its rights or obligations relating to this engagement without the prior written consent of the other parties.

12. **Subcontracting -** Deloitte may use the services of any of its affiliates or any member firm of Deloitte Touche Tohmatsu Limited ('DTTL") and its respective subsidiaries and affiliates, including those operating outside Canada ("Deloitte Entities"), component auditors or any other party. Deloitte remains responsible to The City for services performed by Deloitte Entities and other parties under this engagement. Each member firm of DTTL is a separate and independent legal entity operating under the names "Deloitte", "Deloitte & Touche", "Deloitte Touche Tohmatsu" or other related names; and services are provided by member firms or their subsidiaries or affiliates and not by DTTL.
13. **Survival of terms** - The agreements and undertakings of The City contained in the engagement letter, together with the appendices to the engagement letter including these Terms, will survive the completion or termination of this engagement.

14. **Electronic messaging** - In accordance with Canadian anti-spam legislation, The City consents to Deloitte contacting The City and its personnel through electronic messages relating to Deloitte's services, products and other matters of interest to The City after the completion of this engagement. The City may withdraw any such consent by contacting Deloitte at unsubscribe@deloitte.ca.

15. **Proportionate liability** - The City and Deloitte acknowledge where the audit is conducted pursuant to a statute governing The City that contains proportionate liability provisions that apply to an auditor, such as the Canada Business Corporations Act, the terms of the statute shall apply to this engagement. In the event that The City and Deloitte are not subject to such statutory provisions regarding proportionate liability, The City agrees that in any action, claim, loss or damage arising out of the engagement, Deloitte's liability will be several and not joint and several and The City may only claim payment from Deloitte of Deloitte's proportionate share of the total liability based on the degree of fault of Deloitte as finally determined by a court of competent jurisdiction.

16. **Client misrepresentation** - Deloitte shall not be liable to The City, and The City releases Deloitte, for all liabilities, claims, damages, costs, charges and expenses incurred or suffered by The City related to or in any way associated with the engagement that arise from or are based on any deliberate misstatement or omission in any material information or representation provided by or approved by any member of Administration of The City, officer of The City or member of the Audit Committee of The City.

17. **Qualifications** - Notwithstanding anything herein to the contrary, Deloitte may use the name of The City, refer to this engagement and the performance of the services in marketing, publicity materials and other material, as an indication of its experience, and in internal data systems.

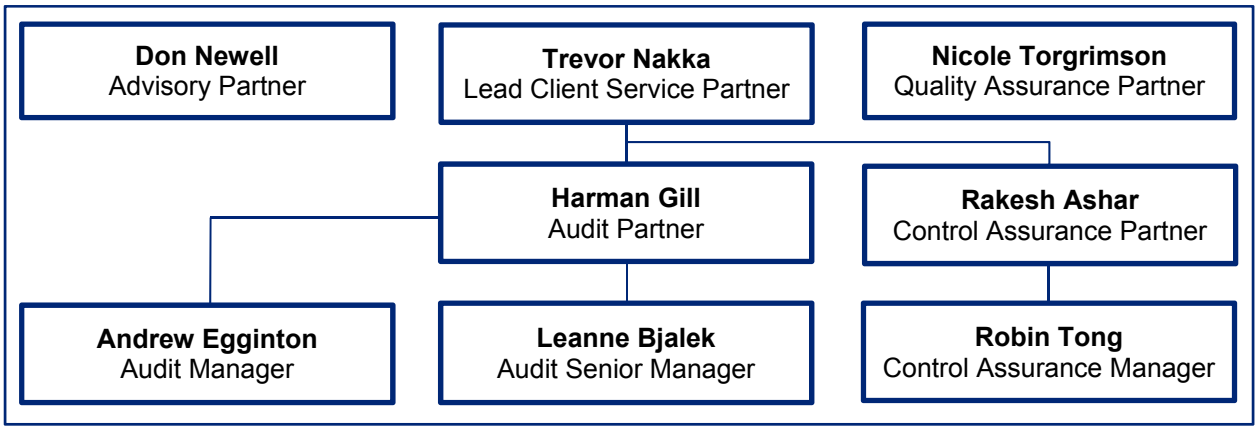
© Deloitte LLP and affiliated entities.

Appendix 3 – Audit team

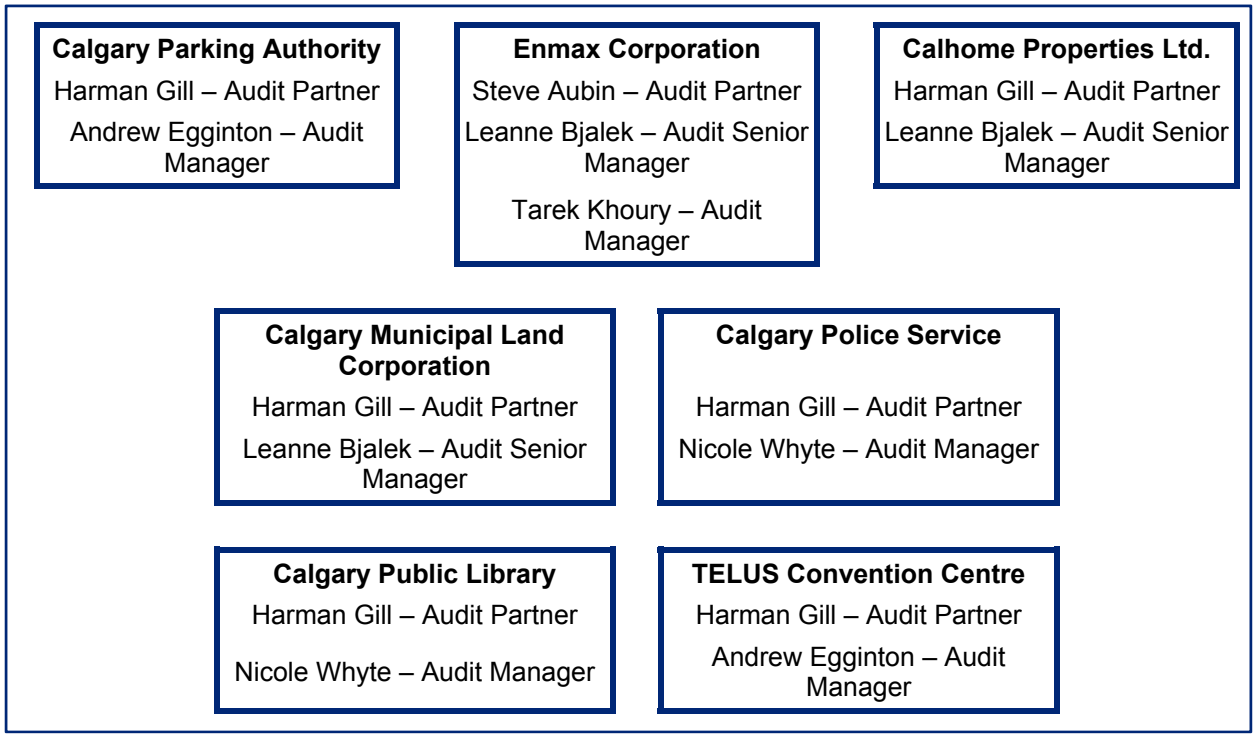
Our audit team members have been chosen for their experience and expertise. Trevor Nakka and/or Harman Gill will attend all Audit Committee meetings and will be accompanied by one or more additional engagement team members, depending on the meeting agenda.

The key members of the core audit engagement of The City and related parties are listed below:

The City of Calgary



Related parties



© Deloitte LLP and affiliated entities.

Appendix 4 - Summary audit timeline

This calendar indicates our various procedures and meetings as planned throughout the year:

Procedures:	**July**	**August**	**September**	**October**	**November**	**December**	**January**	**February**	**March**	**April**	**May**	**June**
Audit planning including scope, risks of fraud, and fees	●	●										
Audit procedures performed on areas of risks, areas of focus and significant and complex transactions		●			●				●			
August 2016: First interim visit. We will perform the following procedure during our first interim: • Design, implementation and operating effectiveness testing of internal controls • P3 3260 *Liability for Contaminated sites,* assessment of remaining sites from the 2015 audit and review of finalized policy • P3 Composting Facility Project agreement review and review of accounting treatment analysis		●										
November 2016: Second interim visit. We will perform the following procedures during our second interim: • Substantive testing of expenditures, payroll and TCA additions • Review of new TCA policies implemented; engineered structures and buildings • P3 Stoney Transit Facility agreement review and review of accounting treatment analysis					●							
Final audit procedures related to the financial statements									●	●		
Communicate the status of our audit against our plan and any major difficulties encountered										●		
Review the results of our audit and provide audit report										●		
Review of the annual report to citizens										●		
Release of audit report										●		
Present 2016 year-end audit management letter												●

© Deloitte LLP and affiliated entities.

Appendix 5 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

Required communication
Audit service plan
1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements
2. An overview of the overall audit strategy, addressing: a) Timing of the audit b) Significant risks, including fraud risks, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit
3. Significant transactions outside of the normal course of business, including related party transactions
Enquiries of those charged with governance
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
5. Any known suspected or alleged fraud affecting The City
6. Whether The City is in compliance with laws and regulations
Year-end communication
7. Fraud or possible fraud identified through the audit process
8. Significant accounting policies, practices, unusual transactions, and our related conclusions
9. Alternative treatments for accounting policies and practices that have been discussed with management during the current audit period
10. Matters related to going concern
11. Management judgments and accounting estimates

© Deloitte LLP and affiliated entities.

Appendix 6 – Audit committee terms of reference

As the external auditors of The City we have the privilege of assisting the Audit Committee in the fulfillment of the Audit Committee's terms of reference. The following table outlines our involvement in the fulfillment of specific terms of reference and any reports that we will issue following the completion of the 2016 audit.

Bylaw 48M2012	Description	Related Deloitte Involvement
Schedule B, 1(b)	Pre-approves all audit and non-audit services performed by the External Auditor.	All audit and non-audit services are presented to the Audit Committee for pre-approval prior to the commencement of such work. Independence letter summarizing the fees for all services performed to be presented to the Audit Committee at the April 2017 meeting.
Schedule B,1(c)	Requires the External Auditor, as an expert in accounting and financial reporting, to express independent judgment about the appropriateness and acceptability of The City's financial statements, in accordance with professional standards.	Communicated in the year-end Audit report to be presented by Deloitte to the Audit Committee at the April 2017 meeting.
Schedule B, 1(d)	Prior to the commencement of the annual external financial audit, review the financial audit plan with the External Auditor.	2016 Audit service plan presented by Deloitte on July 21, 2016.
Schedule B, 1(e)	In conjunction with Administration's presentation of the annual financial statements, receive and review the External Auditor's annual audit report. This report is to be forwarded to Council for information.	Report of the Independent Auditor on the consolidated Financial Statements and year-end Audit report to be presented by Deloitte to the Audit Committee at the April 2017 meeting.
Schedule B, 1(f)	Receives and reviews the External Auditor's Administration letter(s), together with any administrative responses, and forward, either in full or in summary, to Council for information.	Letter of recommendations to be presented by Deloitte at the June 2017 meeting.
Schedule B, 1(g)	The Audit Committee meets with the External Auditor, in the absence of the Administration, at least quarterly.	In-camera sessions held with Deloitte at Audit Committee meetings throughout 2016 and 2017.
Schedule C, 1(g)	Ensures that the combined work of the City Auditor and the External Auditor provides an appropriate level of audit coverage and is effectively coordinated.	Audit work completed will be discussed in the year-end Audit report to be presented by Deloitte to the Audit Committee at the April 2017 meeting.

© Deloitte LLP and affiliated entities.

Bylaw 48M2012	Description	Related Deloitte Involvement
2(a)	Oversees the integrity of, and reviews the annual Financial Statements and recommends their approval to Council.	Report of the Independent Auditor on the consolidated Financial Statements and year-end Audit report to be presented by Deloitte to the Audit Committee at the April 2017 meeting.
2(b)	Reviews and discusses the City's compliance with financial reporting procedures with Administration, the City Auditor and the External Auditor.	Report of the Independent Auditor on the consolidated Financial Statements and year-end Audit report to be presented by Deloitte to the Audit Committee at the April 2017 meeting. Letter of recommendations to be presented by Deloitte at the June 2017 meeting.
2(c)	Engages Administration, the City Auditor and the External Auditor in candid discussions regarding issues that may alter judgment 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.
2(d)	Reviews and discusses areas where changes in accounting standards could have a material impact on financial results, and may request a detailed analysis, prepared by Administration in consultation with the External Auditor, of the implications of those changes.	Appendix 7 of 2016 Audit Service Plan presented by Deloitte on July 21, 2016
2(e)	Maintains open lines of communication with the External Auditor, City Auditor and Administration.	Participation and attendance by Deloitte at Audit Committee meetings throughout the year.
6(b)(i)	Review reports from Administration and from the City Auditor as to the adequacy and effectiveness of corporate policies such as legal matters, regulations, ethical principles, code of conduct and conflict of interest.	Year-end Audit report to be presented by Deloitte to the Audit Committee at the April 2017 meeting includes our notification of whether any violations of this nature have come to our attention.

© Deloitte LLP and affiliated entities.

Appendix 7 – New Financial Reporting Standards

Significant new financial reporting standards and other regulatory requirements that are likely to impact The City's financial reporting for the current and future audits are:

Standards	Effective Date
Related Party Disclosures, Section PS 2200	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Assets, Section PS 3210	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Contingent Assets, Section PS 3320	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Contractual Rights, Section PS 3380	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Inter-entity Transactions, Section PS 3420	Fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.
Introduction to Public Sector Accounting Standards	Fiscal years beginning on or after January 1, 2017.
Restructuring Transactions, Section PS 3430	Fiscal years beginning on or after April 1, 2018. Earlier adoption is permitted.
Foreign Currency Translation, Section PS 2601	Fiscal years beginning on or after April 1, 2019 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 3450.
Financial Instruments, Section PS 3450	Fiscal years beginning on or after April 1, 2019 except for government organizations that applied the CPA Canada Handbook – Accounting prior to adopting the CPA Canada Public Sector Accounting Handbook. Earlier adoption is permitted when adopting Sections PS 1201 and PS 2601.
Financial Statement Presentation, Section PS 1201	When Sections PS 2601 and PS 3450 are adopted.
Portfolio Investments, Section PS 3041	When Sections PS 1201, PS 2601 and PS 3450 are adopted.

© Deloitte LLP and affiliated entities.

Appendix 8 – The Deloitte client service commitment

Seamless and effective delivery focused on your specific needs

The City is important to Deloitte. Your organization is unique and it deserves a customized approach to the services we provide. Our service plan is built on a tailored set of service commitments that guide the delivery of every aspect of our audit services. Our client service assessment, which is central to our philosophy, emphasizes the importance of listening to your expectations, reassessing your needs based on the feedback you provide to us in the assessment process and responding with actions and results. We strive to continually raise the bar by improving processes and adding value while delivering an effective and efficient audit.

Our approach to client service excellence

At Deloitte, our objective is to execute our audit in a way that meets our professional standards and also creates a positive client experience.

Our client service principles provide the framework for guiding and coaching members of our engagement team, and identifying our clients' unique preferences regarding the ways they want to work with us. These principles enable our engagement teams to focus on client service excellence.

Our client service principles

We will:

- **Make** and meet our commitments to you by...
  - Working with you to clearly define your expectations
  - Delivering what is agreed upon
  - Being easily accessible to you
  - Providing valuable responses to all your inquiries
  - Ensuring timeliness and accuracy in our billings
- **Understand** your business and what is important to you by...
  - Anticipating your needs
  - Understanding the unique characteristics of your business industry and operating circumstances
- **Provide** value and build trust through technical competence and consistent results by...
  - Instilling confidence and trust in the quality of our work
  - Providing you with up-to-date professional expertise
  - Providing value to your enterprise
  - Providing insights into the condition of the business and meaningful suggestions for improvement

© Deloitte LLP and affiliated entities.

- **Demonstrate** professionalism through effective interaction and communications by...
  - Keeping you informed of project status
  - Performing as a well-organized team
  - Working collaboratively with you
- Provide a **no surprises** experience by...
  - Proactively addressing issues
  - Providing timely communication of changes to fees
  - Effectively managing changes to the service team

At the conclusion of our audit, or at any time during the engagement, we invite you to assess our performance against these principles through our client feedback process.

© Deloitte LLP and affiliated entities.

Appendix 9 – Deloitte resources a click away

At Deloitte we are devoted to excellence in the provision of professional services and advice and to focusing on client service. To this end, we have developed numerous resources, which contain relevant and timely information accessible by our clients. Provided below is an overview of these resources, which are available through the Deloitte Portal.

Canadian resources	Audience	Description and frequency
Centre for Corporate Governance www.corpgov.deloitte.ca	• Audit Committee members • Board members • CEO/CFO • Internal auditors • Legal counsel	Web site specifically designed to help board members with their responsibilities.
Deloitte Update www.deloitte.com/ca/update	• CFO • V-P Finance • Controller • Financial reporting team	Learning webcasts offered throughout the year featuring Deloitte professionals discussing critical issues that affect your business.
On the agenda	• Audit Committee members • CEO/CFO • Internal auditors • Legal counsel	Bi-monthly e-newsletter for directors that focuses on recent developments affecting their responsibilities, including the points of view of Deloitte professionals.
IFRS resources	**Audience**	**Description and frequency**
IAS Plus web site www.iasplus.com	• CFO • Controller • Financial reporting team • Other accounting professionals	Web site designed by Deloitte Touche Tohmatsu Limited that provides comprehensive information about international financial reporting.
IFRS in Focus	• CFO • Controller • Financial reporting team • Other accounting professionals	E-newsletter that reviews the activities of the IASB, the IFRIC and the IASC Foundation Trustees, including summaries of recent Standards and Interpretations and proposals.
Private enterprise resources	**Audience**	**Description and frequency**
Privately Speaking	• CFO • Controller • Financial reporting team • Other accounting professionals	Important news and relevant commentary for owners and managers of privately owned companies.

© Deloitte LLP and affiliated entities.

Not-for-profit organization resources	Audience	Description and frequency
A state of change	• CFO • Controller • Financial reporting team • Other accounting professionals	Bi-monthly newsletter that discusses changes in accounting standards, rules and regulations on their organizations.
Government resources	**Audience**	**Description and frequency**
Public Sector Financial Administration Series	• CFO • Controller • Financial reporting team • Other accounting professionals	Seminar series to share thoughts and experiences that you and your finance team can use to navigate the current financial environment.
U.S. resources	**Audience**	**Description and frequency**
Accounting roundup www.deloitte.com/us/accountingroundup	• CFO • V-P Finance • Controller • Financial reporting team	Monthly newsletter that focuses on the activities of the accounting standard-setters and regulators, including the FASB, EITF, IASB, and SEC.
U.S. resources	**Audience**	**Description and frequency**
Technical Library (DART) *Note: Subscribing to this service requires Audit Committee's preapproval*	• CFO • V-P Finance • Controller • Financial reporting team	Comprehensive online library of accounting and financial disclosure literature. Subscription-based service. New option for PSAS-only standards, thought leadership and resources now available.
Heads Up www.deloitte.com/us/headsup	• CFO • V-P Finance • Controller • Financial reporting team	Periodic newsletter that discusses the latest accounting and regulatory developments.
EITF Snapshot www.deloitte.com/us/eitfsnapshot	• CFO • V-P Finance • Controller • Financial reporting team	Quarterly newsletter highlighting key points from Emerging Issues Task Force discussions.
US GAAP Plus www.usgaapplus.com	• Board members • Audit Committee members • CEO/CFO • Controller • Financial reporting team • Other accounting professionals	US GAAP Plus is a comprehensive source for news, publications and project updates about U.S. accounting standard setting. It covers the activities of the FASB, the PCAOB, the AICPA, the SEC and other U.S. accounting and auditing standard setters.

© Deloitte LLP and affiliated entities.

Appendix 10 – Deloitte Portal

We strive to exceed your expectations and to leverage Deloitte resources to help you achieve your objectives.

The Deloitte Portal provides our clients and others with fast, direct access to Deloitte knowledge, tools, specialized sites, e-newsletters, webcasts and other external resources in four main areas:

- Financial information;
- Corporate governance;
- Learning resources; and
- Periodicals.

Each section also includes links to comparable sources of U.S. information.

It has been our experience that The City's Administration proactively communicates with us concerning critical issues related to the audit and other matters. We have noted that Administration takes its financial reporting responsibilities seriously. Our audit plan takes into account Administration's role in effectively monitoring changes in the business, changes in accounting and financial statement requirements, and other needs as they arise, such as the need for increased attention to International Financial Reporting Standards.

Access to the tools available through the Deloitte Portal, such as the financial reporting disclosure checklists and the accounting standards setting activities digests, facilitates the efficient and accurate preparation of financial statements. This helps avoid the need for costly, disruptive corrections resulting from audit findings and enables our audit professionals to focus on the required testing. Through the Deloitte Portal, you will also receive timely communication of needed information and quick access to a wide variety of resources to help your organization accomplish a variety of other tasks in addition to those related to your financial reporting.

© Deloitte LLP and affiliated entities.

Appendix 9 presents an illustrative list of the Deloitte Portal materials most frequently accessed. The top sites visited include those shown below:

Deloitte Learning Academy helps you keep up to date with the financial reporting knowledge and tools you need.

Deloitte Updates are informative, interactive webcasts conducted by Deloitte professionals to provide executives with new information and discussions about financial reporting and regulatory developments.

Deloitte's Directors' Series events are live satellite broadcasts to locations across the country to help Canadian corporate directors keep up with their learning requirements in a time of frequent change and new demands.

Centre for Corporate Governance is a web site specifically designed to help directors with their responsibilities.

Access to the Deloitte Portal is literally "a click away" using the following link www.deloitte.com/ca/portal