



# **The City of Calgary** 2023 Audit service plan

For the year ending December 31, 2023  
Presented to the Audit Committee  
July 19, 2023

July 10, 2023

The Audit Committee of the City Council of the City of Calgary ("Audit Committee")

## 2023 Audit service plan

Dear Audit Committee members:

We are pleased to provide you with our audit service plan for the audit of the City of Calgary ("The City") consolidated financial statements ("financial statements") for the year ending December 31, 2023. This document describes the key features of our plan including our audit scope and approach, our planned communications with you, our team and an estimate of our fees.

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

We are providing this audit service plan to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee to assist in discharging its responsibilities with respect to the financial statements for the year ending December 31, 2023 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,



Chartered Professional Accountants

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# Executive summary





## Audit scope and terms of engagement

We have been asked to perform an audit of The City’s financial statements prepared in accordance with Canadian public sector accounting standards (“PSAS”) as at and for the year ending December 31, 2023. Our audit will be conducted in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”).

The terms and conditions of our engagement are described in the master services agreement (“MSA”) dated July 25, 2018, the draft confirmation of changes letter included in Appendix 8 and any previous confirmation letters issued pursuant to the MSA, all as may be updated or amended from time to time. Our 2023 confirmation of changes letter should be signed on behalf of City Council and City Administration (“Administration”).

## Significant risks

### Status

|   |  |   |
|---|--|---|
| 1 | Administration override of controls    |    |
| 2 | Capital deposits - revenue recognition |   |
| 3 | Tangible Capital Assets                |  |
| 4 | Adoption of new accounting standards   |  |

 New from prior year

 Continued from prior year

## Fraud risk

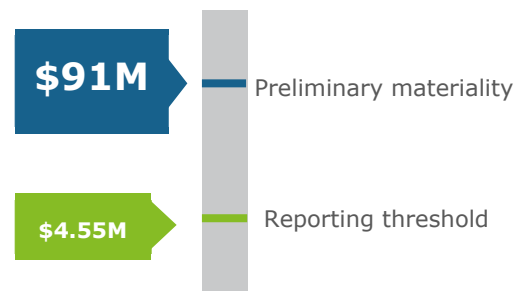
We will develop our audit strategy to address the assessed risks of material misstatement due to fraud. Determining this strategy will involve:

1. Asking people involved in the financial reporting process about inappropriate or unusual activity.
2. Testing material consolidation entries and adjustments at the end of the reporting period.
3. Identifying and obtaining an understanding of the business rationale for significant or unusual transactions that are outside the normal course of business.
4. Evaluating whether your accounting policies may be indicative of fraudulent financial reporting resulting from Administration’s effort to manage earnings.
5. Evaluating whether the judgements and decisions related to Administration estimates indicate a possible bias.
6. Incorporating an element of unpredictability in selecting our audit procedures.

We will also ask the Audit Committee for their views about the risk of fraud, whether they know of any actual or suspected fraud affecting The City and their role in the oversight of Administration’s antifraud programs.

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

## Materiality



Our preliminary estimate of materiality for the year ending December 31, 2023 has been set at \$91,000,000 (2022, \$67,000,000) on the basis of consolidated 2022 expenses. We will report to you any uncorrected misstatements greater than our current year reporting threshold of \$4,550,000 (2022, \$3,350,000).

# Significant audit risks and areas of focus

During our risk assessment, we identified some significant audit risks that will require special audit consideration. These risks, together with our planned responses, are described below.

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

## Significant risk dashboard


### Legend

 Significant level of Administration judgement involved


 Minimal/No Administration judgement involved

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


### Administration override of controls

| Fraud Risk  | Yes   | Analysis of risk  | Planned audit response  |
|---|---|---|---|
| <b>Control Testing Planned</b>                      | D&I   | <ul style="list-style-type: none"> <li>Under Canadian Auditing Standards, it is the responsibility of Administration, with the oversight of those charged with governance to place a strong emphasis on fraud prevention and detection. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process.</li> <li>Administration override of controls is present in all entities. It is a risk of material misstatement resulting from fraud and therefore is considered as a significant risk.</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the design and implementation of relevant controls.</li> <li>We will engage in periodic fraud discussions with certain members of Administration and others, including The City Auditor, The City Manager and the Audit Committee.</li> <li>We will consider the potential for bias in judgements and estimates, including performing retrospective analysis of significant accounting estimates.</li> <li>We will evaluate the business rationale for any significant unusual transactions.</li> <li>We will evaluate The City's fraud risk assessment and consider entity-level internal controls and internal controls over the closing and reporting process.</li> <li>We will test manual consolidation entries as well as entries recorded in December 2023 that exhibit characteristics of possible Administration override of controls identified.</li> </ul> |
| <b>Level of Administration judgement</b>            |  |   |   |
| <b>Specialist, Expert or Innovation Involvement</b> | Excel Analytics will be used to perform journal entry testing.                      |   |   |


### Capital deposits - Revenue recognition

| Fraud Risk                                   | Yes   | Analysis of risk  | Planned audit response   |
|--|---|---|--|
| Control Testing Planned                      | D+I   | <ul style="list-style-type: none"> <li>Capital revenue relating to government funding and private contributions is not recognized in the correct period, as expenditures are incurred.</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the design and implementation of relevant controls.</li> <li>We will apply audit procedures to revenue recognition of capital deposits relating to both government funding and private contributions. Our testing will include, on a sample basis, reviewing amounts included in the current year transactions to ensure only amounts that meet the revenue recognition criteria under PSAS are recognized as revenue.</li> <li>We will obtain capital deposit contracts to ensure that the revenue recorded aligns with the stipulations in the contract.</li> <li>We will apply audit procedures to test the completeness of revenue by reviewing the carry-forward forms for financing deficits as at December 31 to determine if grant funding has been applied in the appropriate period.</li> <li>We will apply audit procedures to off-site levies, on a sample basis, on the following areas: <ul style="list-style-type: none"> <li>Signed agreements in the year;</li> <li>Debt acquired for off-site levy projects;</li> <li>Amounts recognized into revenue in the year;</li> <li>Deferred revenue recognized into revenue in the year.</li> </ul> </li> </ul> |
| Level of Administration judgement            |  |   |  |
| Specialist, Expert or Innovation Involvement | Not applicable.   |   |  |


### Tangible Capital Assets

| Fraud Risk                                   | Yes   | Analysis of risk   | Planned audit response  |
|--|---|--|---|
| Control Testing Planned                      | D+I   | <ul style="list-style-type: none"> <li>Completeness, existence and valuation of Tangible Capital Assets ("TCA"), work in progress ("WIP") and fund 40 expenditures.</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the design and implementation of relevant controls.</li> <li>On a sampling basis, we will test TCA WIP additions to ensure these WIP additions were appropriately capitalized and accounted for as WIP.</li> <li>On a sampling basis, we will test TCA WIP transfers to ensure these WIP projects were appropriately transferred out of WIP and into the correct asset class at project completion.</li> <li>On a sampling basis, we will test fund 40 expenditures to ensure these costs were appropriately expensed or capitalized to TCA.</li> </ul> |
| Level of Administration judgement            |  |  |   |
| Specialist, Expert or Innovation Involvement | Not applicable.   |  |   |

**Adoption of new accounting standards – PS 3280 Asset Retirement Obligations**

| Fraud Risk  | No  | Analysis of risk  | Planned audit response  |
|---|---|---|---|
| <b>Control Testing Planned</b>                      | D+I   | <ul style="list-style-type: none"> <li>PS 3280 – Asset retirement obligations (“PS 3280”) is required to be adopted for the year ended December 31, 2023 by The City. The standard establishes how to account for and report a liability for asset retirement obligations.</li> <li>Completeness of the liability recorded for asset retirement obligations, and the accuracy of the calculations and models used to calculate the liability.</li> <li>Completeness and accuracy of the disclosures required under PS 3280.</li> <li>Application of the standard is not consistent with PSAS guidance.</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the design and implementation of relevant controls. We will review the methodology utilized by Administration in the application of PS 3280. We will audit any assumptions utilized by Administration in their approach.</li> <li>On a sample basis we will test the completeness of the assets which were scoped in for the adoption of this standard.</li> <li>On a sample basis we will test the accuracy of the calculations that make up the asset retirement obligation liability.</li> <li>We will evaluate the financial statement disclosures for completeness and accuracy as required under PS 3280.</li> <li>Please refer to Adoption of New Accounting Standards for additional discussion.</li> </ul> |
| <b>Level of Administration judgement</b>            |  |   |   |
| <b>Specialist, Expert or Innovation Involvement</b> | ARO Specialists involved in testing of implementation.                            |   |   |

**Adoption of new accounting standards – PS 3450 Financial Instruments (including PS 3041 Portfolio Investments, PS 2601 Foreign Currency Translation and PS 1201 Financial Statement Presentation which are required to adopted together with PS 3450)**

| Fraud Risk  | No  | Analysis of risk  | Planned audit response  |
|---|---|---|---|
| <b>Control Testing Planned</b>                      | D+I   | <ul style="list-style-type: none"> <li>Financial assets and liabilities impacted by the new standard are not complete or are not valued at the correct amount.</li> <li>Completeness and accuracy of the disclosures required under PS 3450, PS 3041, PS 2601, and PS 1201.</li> <li>Application of the standard is not consistent with PSAS guidance.</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the design and implementation of relevant controls. We will review the methodology utilized by Administration in the application of PS 3450, PS 3041, PS 2601, and PS 1201. We will audit any assumptions utilized by Administration in their approach and apply tests on the valuation methods used by Administration.</li> <li>We will review The City’s assessment of the fair value of investments, along with Administration’s assessment of impairment.</li> <li>We will evaluate the financial statement disclosures for completeness and accuracy as required under PS 3450, PS 3041, PS 2601, and PS 1201.</li> <li>Please refer to Adoption of New Accounting Standards for additional discussion.</li> </ul> |
| <b>Level of Administration judgement</b>            |  |   |   |
| <b>Specialist, Expert or Innovation Involvement</b> | Not applicable.   |   |   |

## Areas of focus

### Related parties (authorities/subsidiaries/civic partners)

| Analysis   | Planned audit response   |
|--|--|
| <ul style="list-style-type: none"> <li>Completeness and disclosure of the accounting for organizations included in the government reporting entity (related authorities or subsidiaries).</li> </ul> | <ul style="list-style-type: none"> <li>We will review The City's accounting policies and any changes therein related to its related parties.</li> <li>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.</li> <li>We will audit all material balances relating to the related parties.</li> <li>We will apply audit procedures to any entities identified by Administration in 2023 as possibly meeting the criteria for consolidation under PSAS guidance, if any.</li> </ul> |

### Litigation accruals and contingencies

| Analysis  | Planned audit response   |
|---|--|
| <ul style="list-style-type: none"> <li>Completeness and accuracy of claims and litigation matters of The City and its related authorities.</li> </ul> | <ul style="list-style-type: none"> <li>We will enquire with The City's legal department and The City Solicitor to determine the status of outstanding legal matters.</li> <li>We will review legal correspondence from The City Solicitor and external legal counsel (if applicable) and discuss the status of outstanding legal matters with Administration and others, as necessary.</li> <li>We will assess the appropriateness of any contingent liabilities and financial statement disclosures.</li> </ul> |

### Property tax revenue

| Analysis  | Planned audit response  |
|---|---|
| <ul style="list-style-type: none"> <li>Completeness and accuracy of the accounting for property tax revenue.</li> </ul> | <ul style="list-style-type: none"> <li>We will perform reasonability tests on property tax revenue balances.</li> <li>We will review and test the property tax revenue business cycle process controls.</li> <li>We will complete testing using data analytics on the property tax revenues for the year ending December 31, 2023.</li> </ul> |

### Government grants and transfers

| Analysis  | Planned audit response   |
|---|--|
| <ul style="list-style-type: none"> <li>Accounting and disclosure of government grants and transfers.</li> </ul> | <ul style="list-style-type: none"> <li>We will test a sample of funding agreements to determine if the contract required financial statement disclosure.</li> <li>We will test a sample of federal and provincial transfer payments received during the year to fund specific projects.</li> <li>We will review the related funding agreements to ensure funds were used for their intended purpose and that revenue was recognized in the appropriate period, including the deferred revenue.</li> <li>We will review deferred revenue for compliance with the applicable PSAS guidance.</li> <li>We will test expenditures and ensure that the corresponding revenue has been recognized.</li> </ul> |



## Reserves

| Analysis   | Planned audit response  |
|--|---|
| <ul style="list-style-type: none"> <li>Completeness and accuracy of the recording and presentation of reserves.</li> </ul> | <ul style="list-style-type: none"> <li>We will test expenditures charged to each reserve and agree a sample of expenditures to invoices to verify that the transaction was within the terms and conditions approved by City Council.</li> <li>We will also test a sample of transfers between reserves, if any, to verify that the transfer was approved by City Council.</li> <li>We will review the completeness and accuracy of the financial statement disclosures relating to reserves.</li> </ul> |

## Commitments and contractual obligations

| Analysis  | Planned audit response   |
|---|--|
| <ul style="list-style-type: none"> <li>Disclosure and completeness of commitments and contractual obligations.</li> </ul> | <ul style="list-style-type: none"> <li>We will review the completeness and accuracy of the financial statement disclosures relating to The City's commitments and contractual obligations.</li> <li>We will ensure that these disclosures are in accordance with PSAS guidance.</li> </ul> |

## Valuation of registered defined benefit pension plans' pension assets and obligation

| Analysis  | Planned audit response   |
|---|--|
| <ul style="list-style-type: none"> <li>The pension assets are based on actual market values as at October 31, projected to December 31, based on expected contributions, benefits payments and return on assets.</li> <li>The pension obligation is determined based on various inputs and assumptions (including discount rates, inflation rates, mortality rates, termination rates, retirement rates, salary increases, etc.).</li> <li>Due to the current economic instability, there is a risk that the valuation of the defined benefit pension plan's pension asset and obligation are inaccurate as they have not been appropriately updated for significant changes in the underlying inputs and assumptions.</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the reasonability of the projected pension assets.</li> <li>We will review the various inputs and assumptions used in the calculation of the pension obligation and assess their reasonableness.</li> <li>We will perform testing on a sample of the inputs that were provided to the actuary.</li> <li>We will review and test the pension asset and obligation business cycle process controls to ensure the controls surrounding the review of the inputs and assumptions are designed and implemented properly.</li> <li>We will send confirmations to the actuary (AON Solutions Canada Inc.).</li> </ul> |

## Post 2022 realignment transition impact

| Analysis  | Planned audit response  |
|---|---|
| <ul style="list-style-type: none"> <li>The realignment activities required a transition of master financial data which occurred on August 1, 2022. Business units were required to transfer the financial master data through a significant number of journal entries and manual processes to affect</li> </ul> | <ul style="list-style-type: none"> <li>We will assess the design and implementation of relevant controls post realignment transition.</li> <li>On a sampling basis, we will review the Internal Management Report and Statement of Financial Position reconciliations of business units.</li> </ul> |

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### Post 2022 realignment transition impact

| Analysis  | Planned audit response   |
|---|--|
| <p>the realignment as of January 1, 2022. There is a risk that the journal entries posted as part of the transition are not complete or recorded in the accurate account, business unit or dept ID.</p> | <ul style="list-style-type: none"><li>• We will review the master financial data for significant post-2022 realignment journal entries and assess for further testing.</li><li>• We will assess budget adjustments based on the realignment entries posted subsequent to 2022 year-end.</li><li>• On a sampling basis, we will test 2022 dept IDs to ensure they are mapped correctly in 2023.</li></ul> |

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# Adoption of new accounting standards

There are five complex accounting standards that The City was required to adopt effective January 1, 2023, specifically accounting standards related to financial instruments and asset retirement obligations:

- PS 1201, *Financial Statement Presentation*\*
- PS 2601, *Foreign Currency Translation*\*
- PS 3041, *Portfolio Investments*\*
- PS 3450, *Financial Instruments*
- PS 3280, *Asset Retirement Obligations*

\*PS 1201, PS 2601, and PS 3041 are required to be adopted with the adoption of PS 3450, *Financial Instruments*.

As presented in our 2022 audit service plan, due to the complexity of these standards our audit procedures commenced in 2022 and will continue through to the fall of 2023, and be completed during our year end field work to align with Administration's timeline. Timelines on the following page are tentative and will be adjusted based on Administration's implementation plan.

Adoption of the new accounting standards will lead to significant changes in underlying processes, controls and financial statement recognition, measurement and disclosure. Our audit is designed to assess the risks underpinning these changes and design appropriate audit procedures to satisfy ourselves that the financial statements are materially stated. Due to the complexity of these new standards and two-year implementation timeline, we will continue to monitor our effort and cost throughout our work and will communicate our actual fees invoiced as we progress through our workplan. These changes are not only expected to have one-time out of scope fees associated with the audit of initial implementation but are also expected to impact the continuing base audit fees in subsequent years on an annual basis. These new standards will require The City to develop new relevant internal controls, including IT controls as required, annual monitoring with respect to adjustments and additional transactions that may arise, annual updates to estimates based on changes to underlying assumptions, continued disclosures and in the case of financial instruments, will also require an additional statement (statement of remeasurement gains and losses) to be presented each year in the consolidated financial statements. The additional year over year procedures that will be performed as part of the annual audit have been included in our base audit fee for fiscal 2023. The level of effort and scope, as well as our fees related the one-time audit of the assessment of Administration's implementation and adoption of these standards is included below. We have utilized our internal specialists to support our work on the assessment of Administration's implementation and adoption of these standards.

As of the mailing of this document, we have commenced our work on phases 1a, 1b and 2.

| Phase  | Estimated fees      | Actual fees charged | Status      |
|--|---------------------|---------------------|-------------|
| Phase 1a) Understand the scope and review Administration position papers (July 2022 - July 2023)                   | \$25,000 - \$30,000 | TBD                 | In progress |
| Phase 1b) Understand adoption methodology and perform testing of key assumptions and models (May 2023 - July 2023) | \$40,000 - \$70,000 | TBD                 | In progress |

|  |                                      |     |             |
|--|--------------------------------------|-----|-------------|
| Phase 2) Evaluate design and implementation of key controls around adoption and perform substantive procedures on initial adjustments (June 2023 – March 2024) | TBD                                  | TBD | In progress |
| Phase 3) Evaluate system changes and assess additional audit procedures, if applicable (September - November 2023)   | TBD                                  | TBD | Not started |
| Phase 4a) Review and evaluate disclosures related to the adoption of these new standards (September 2023 - April 2024)   | TBD                                  | TBD | Not started |
| Phase 4b) Perform substantive audit procedures on adjustments and year end entries (February - April 2024)   | Included in our 2023 base audit fees | N/A | Not started |

## Planned audit procedures

### Phase 1 - Understand the scope of each standard, assess impact to financial statements, evaluate completeness of analysis and understand underlying assumptions.

#### a. Understand the scope and review Administration position papers

- We will continue to engage with Administration on their timeline for the implementation of the upcoming accounting standards.
- We will review and assess The City’s analysis, including the methodology, assumptions and estimates, as the information becomes available to us.

#### b. Understand adoption methodology and perform testing of key assumptions and models

- As part of our understanding of The City, we will develop procedures to understand and evaluate Administration’s process to adopt the new accounting standards, including key decisions and the results of the activities performed by Administration including, but not limited to, understanding and evaluating the following:
  - Administration’s process to assess the impact of the new accounting standards by evaluating relevant contracts or transactions, performing a risk assessment and designing a plan to implement the new accounting standards (e.g., determining how to implement the new accounting standards, identifying information requirements, identifying new or modifying existing information systems, processes and internal controls used to gather and archive contracts or transactions data).
  - The inputs and assumptions of the models created by Administration to arrive at the resulting values required to be adjusted as a result of the adoption of these standards.
  - The City’s project management plan that includes all relevant stakeholders (e.g., technical accounting, financial reporting, information technology and those charged with governance) and how Administration communicates with and updates relevant stakeholders throughout the implementation process.
  - How Administration identified underlying transactions, contracts, populations of contracts, remediation sites and financial instruments for assessment under the new accounting standards and evaluating whether a complete population was identified.
  - Whether The City has the appropriate technical expertise in the new standard (e.g., either internally or through use of outsourced service providers).
  - Administration’s selection and application of the accounting principles of the new standards, including related disclosures. Administration is required to have a detailed understanding of its business including its key products and services, key provisions of contractual arrangements (and whether they can be oral or implied) and the extent to which contractual terms are standardized across the entity in order to determine how to apply the new accounting standards to its transactions.
  - Significant management judgments and estimates required to apply the new accounting standards and the information used to develop new estimates.
  - Changes to The City’s policies, processes and internal controls, including accounting records and supporting information used to initiate, authorize, process and record transactions.

- Changes made to the existing or development of new information technology systems used to capture and archive events, conditions, contracts and transaction data; develop new estimates and support new financial statement disclosures.
- Specific industry considerations.
- The elected method of transition (e.g., full retrospective versus modified retrospective, or prospective).
- Estimated impact to the financial statements and related disclosures.
- The City's process to monitor the results of the implementation by testing changes to the information system, testing the operating effectiveness of internal controls (if applicable) and addressing any issues identified during implementation.

### **Phase 2 - Evaluate design and implementation of key controls around adoption and perform substantive procedures on initial adjustments.**

- We will design audit procedures to understand how controls affect the preparation of The City's financial statements, including understanding the design and implementation of relevant controls, which is critical to our risk assessment as ultimately the information obtained through these procedures provides audit evidence necessary to facilitate an appropriate identification and assessment of the risks of material misstatement ("RoMMs"), and design of further audit procedures responsive to the RoMMs. This understanding includes processes and relevant controls over both the determination of the accounting under the adoption of the new accounting standards as well as the transition disclosures and adjustments.
- We will design audit procedures to understand how changes to The City's processes for the implementation of a new accounting standard affects one or more components of internal control (i.e., control environment, risk assessment, control activities, information and communication, monitoring activities).
- We will design and perform substantive audit procedures on any required adjustments made by The City on opening balances as a result of adoption of these new standards.

### **Phase 3 - Evaluate system changes and assess additional audit procedures, if applicable.**

- As part of our understanding of internal control, we will obtain an understanding of the information systems impacted by the adoption of the new accounting standards. Information systems will often play an important role in capturing information used to initiate, authorize, process and record transactions, as well as in generating information used to develop estimates and in new required disclosures. Further, during the transition period of adopting a new accounting standard, an entity may use spreadsheets or other temporary manual processes until automated processes and controls are implemented. These short-term manual processes may present different or greater risk of material misstatement than automated processes subject to effective general information technology controls.

### **Phase 4 – Perform substantive audit testing of adjustments and related disclosures.**

#### **a. Review and evaluate the disclosures required as a result of the adoption of these new standards.**

- We will review the disclosures included in the financial statements as a result of transition and adoption of the new accounting standards, along with any disclosure required as a result of any adjustments to opening balances.

#### **b. Perform substantive audit testing on the adjustments and year end entries.**

- We will design substantive audit procedures to audit the adjustments and year end entries for the amounts presented in the financial statements for year ended December 31, 2023.

# Appendix 1 – Audit approach

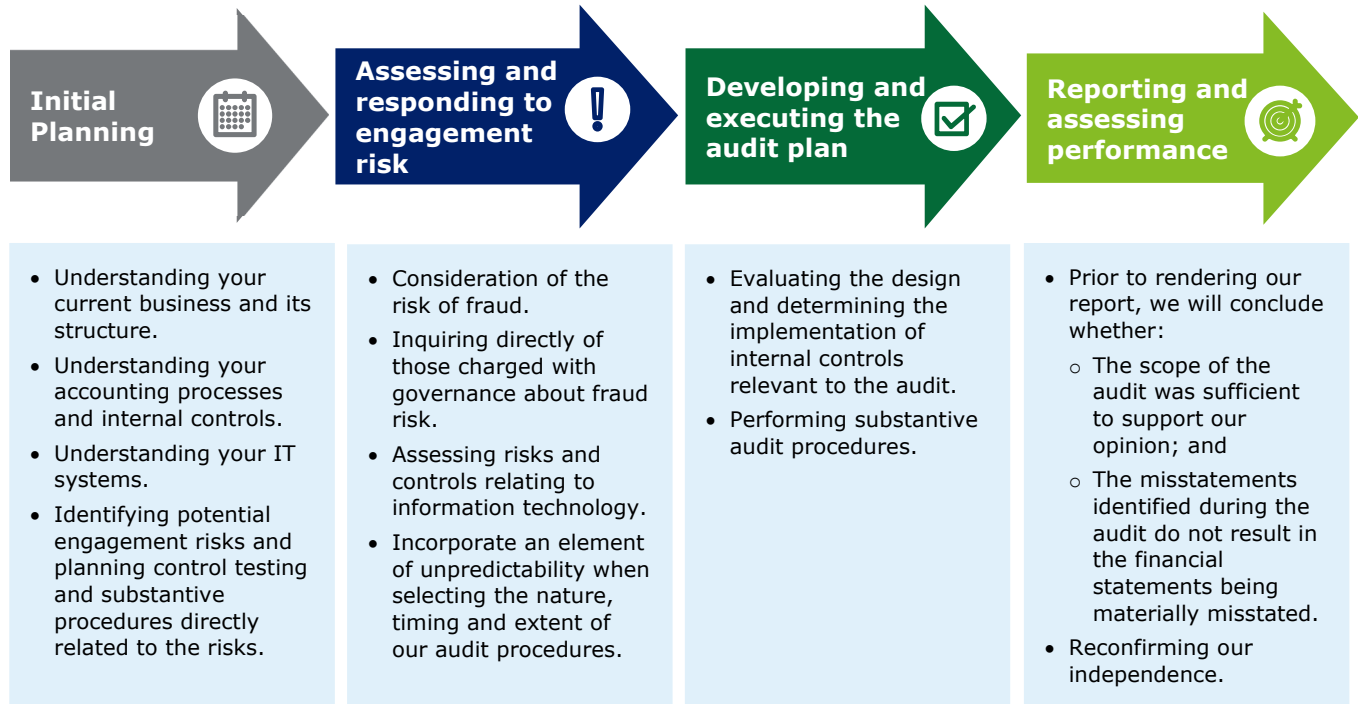
Deloitte’s audit approach is a systematic methodology that enables us to tailor our audit scope and plan to address the unique issues facing The City.



## Delivering professional excellence

### Focus area

|                                 |  |
|---------------------------------|--|
| <b>Risk based audit</b>         | <ul style="list-style-type: none"> <li>Deliver a customized risk assessment, focusing our attention and resources on the audit areas that are most relevant to The City, including those identified above in the Significant audit risks and areas of focus section.</li> </ul>  |
| <b>Confidential Information</b> | <ul style="list-style-type: none"> <li>Protecting the privacy and confidentiality of our clients and the firm is a cornerstone of the professional standards every Deloitte partner and practitioner commits to upholding every day.</li> <li>Deloitte employs technical, physical and procedural safeguards, including our Confidential Information Program, to appropriately safeguard your data before, during and after the course of the engagement.</li> </ul> |
| <b>Professional skepticism</b>  | <ul style="list-style-type: none"> <li>Obtain a thorough understanding of the relevant facts and information available during our audit testing, analyze reasonable alternatives, apply a questioning mindset and challenge Administration’s assumptions.</li> <li>Perform a rigorous review of potential contradictory evidence.</li> </ul>   |
| <b>Consultations</b>            | <ul style="list-style-type: none"> <li>Involve additional resources or consult with technical resources where required.</li> </ul>   |



**When general IT controls (GITCs) may be relevant?**

**Factor #1 Data**

For example:  
 A billing system that performs many functions (such as processing orders, generating invoices, and tracking financial balances) and it processes and houses data. The entity relies on the functionality and the data processed by the system. Additionally, the volume and complexity of transactions processed by system is considered high. Therefore the billing system is relevant to the audit.

**Factor #3 System Generated Reports**

For example, a system-generated A/R aging report from the financial reporting application is used to determine the allowance for doubtful accounts.

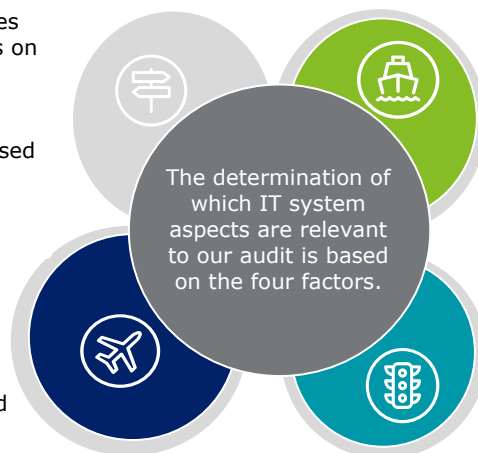
**Factor #2 Automated Controls**


For example:

- 3-way match of the purchase order, goods receipt and invoice prior to payment
- The calculation of depreciation expense
- Access is restricted to update inventory quantity

**Factor #4 Analytics**

For example, data from the property tax system (PTWeb) can be compared to the expected property tax revenue based on the current property tax levy and assessed property values. This can provide insight if any discrepancies are identified in the property tax levy applied. Therefore, the PTWeb system is relevant for the audit.





## Innovating our audit approach

### Focus area

|                         |   |
|-------------------------|---|
| <b>Audit technology</b> | <ul style="list-style-type: none"> <li>• <b>Deloitte Connect</b> – Use Deloitte’s secure, online collaboration site to facilitate a two-way dialogue between the Deloitte team and The City team to effectively manage engagement coordination and provide greater transparency allowing both Administration and auditor visibility over client request status.</li> <li>• <b>Excel Analytics</b> - Use this proprietary tool to analyze data and test journal entries, identify risks and anomalies more quickly and hone-in on items of interest.</li> <li>• <b>Audit Analytics</b> - Leverage specialists and technology-powered solutions in our audit delivery model to transform the way we plan and execute our audits.</li> </ul> |
|-------------------------|---|

### Focus area

|                                      |  |
|--------------------------------------|--|
| <b>Processes</b>                     | <ul style="list-style-type: none"> <li>• <b>Optimizing interim</b> - Proactively shift work forward from peak periods to our interim visits, including audit planning, assessing the design and implementation of internal controls and substantive testing of expenditures, payroll, TCA additions and capital deposits.</li> <li>• <b>Project management</b> - Enhance project management oversight and effective communications between the audit team and Administration.</li> </ul> |
| <b>The Audit Committee reporting</b> | <ul style="list-style-type: none"> <li>• <b>The Audit Committee communications</b> – Harman Gill, Ivana Cvitanusic and Sanjeev Rajani to meet with Administration and those charged with governance at the completion of the FY2023 audit.</li> </ul>  |



# Appendix 2 – 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 2022 year-end audit.

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 Audit Committee’s pre-approval before commencing the additional procedures arising from these unexpected changes. Fees outlined below are for base audit fees only and do not include any one-time requests or additional services that The City may seek from time to time.

| The 2023 estimated audit fees are as follows:   | 2023 <sup>1</sup>      | 2022 <sup>1</sup> |
|---|------------------------|-------------------|
| The City of Calgary consolidated financial statement audit  | \$429,685 <sup>2</sup> | \$361,080         |
| Municipal Information Return  | \$5,018                | \$4,690           |
| Funds Held in Trust Audit   | \$1,953                | \$1,825           |
| Procedures with respect to adoption of new accounting standards <sup>3</sup>  | TBD                    | -                 |
| Additional audit or non-audit services as requested by the Audit Committee up to \$50,000 annually (paragraph 5(f)(i) of Audit Committee by-law 33M2020) <sup>2</sup> | \$50,000               | \$50,000          |
| <b>Total</b>  | <b>\$486,656</b>       | <b>\$417,595</b>  |

<sup>1</sup> These fees are subject to a 7% administrative charge and applicable GST.

<sup>2</sup> The 2023 base audit fee reflects a contractual increase per the 2023 contract extension (to the 2018 request for proposal and external audit contract) dated March 20, 2023 between The City and Deloitte LLP.

<sup>3</sup> As discussed in the Adoption of New Accounting Standards section of this document we are currently in the process of determining the full scope of additional effort required with respect to auditing the implementation and adoption of the new accounting standards.

## Audit scope uncertainty

Our proposed 2023 audit plan is based on several assumptions. Circumstances may arise during the 2023 audit 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 or data issues encountered during the current year engagement compared to the prior year engagement.
- The identification of significant deficiencies in The City’s internal controls that require additional audit procedures not contemplated in the original audit plan.
- The identification, during our audit, of a significant level of proposed audit adjustments.
- The occurrence of significant new issues or changes, such as changes in The City’s accounting personnel or their availability.

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 Audit 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 Audit Committee.

# Appendix 3 – Group audit

## **Group audit**

The audit of The City is considered to be a group audit and therefore, we are also required to determine the scope of work required for each related authority included in Appendix 5. We are auditors of all related authorities and issue an audit opinion on the standalone financial statements of each entity, with the exception of Attainable Homes Calgary Corporation, Calgary Economic Development Ltd., and Calgary Arts Development Authority Ltd. For the three entities not audited by Deloitte LLP, we apply audit procedures based on The City's consolidated materiality. We are currently in the pre-planning stage for the 2023 audits of the related authorities for which we issue an audit opinion.

# Appendix 4 – Communication requirements

The table below summarizes our communication requirements under Canadian GAAS.

| <b>Required communication</b>  |
|--|
| <b>Audit Service Plan</b>  |
| <ol style="list-style-type: none"> <li>1. Our responsibilities under Canadian GAAS, including forming and expressing an opinion on the financial statements</li> <li>2. An overview of the overall audit strategy, addressing:               <ol style="list-style-type: none"> <li>a. Timing of the audit</li> <li>b. Significant risks, including fraud risks</li> </ol> </li> <li>3. Significant transactions outside of the normal course of business, including related party transactions</li> </ol>   |
| <b>Enquiries of those charged with governance</b>  |
| <ol style="list-style-type: none"> <li>4. How those charged with governance exercise oversight over Administration’s process for identifying and responding to the risk of fraud and the internal control that Administration has established to mitigate these risks</li> <li>5. Any known suspected or alleged fraud affecting The City</li> <li>6. Whether The City is in compliance with laws and regulations</li> </ol>   |
| <b>Year-end communication</b>  |
| <ol style="list-style-type: none"> <li>7. Modification to our audit plan and strategy</li> <li>8. Fraud or possible fraud identified through the audit process</li> <li>9. Significant accounting policies, practices, unusual transactions and our related conclusions</li> <li>10. Alternative treatments for accounting policies and practices that have been discussed with Administration during the current audit period</li> <li>11. Matters related to going concern</li> <li>12. Administration judgements and accounting estimates</li> <li>13. Significant difficulties, if any, encountered during the audit</li> <li>14. Material written communications between Administration and us, including Administration representation letters</li> <li>15. Circumstances that affect the form and the content of the auditor’s report</li> <li>16. Modifications to our opinion</li> <li>17. Our views of significant accounting or auditing matters for which Administration consulted with other accountants and about which we have concerns</li> <li>18. Significant matters discussed with Administration</li> </ol> |

19. Matters involving noncompliance with laws and regulations that come to our attention, unless prohibited by law or regulation, including illegal or possibly illegal acts that come to our attention
20. Significant deficiencies in internal control, if any, identified by us in the conduct of the audit of the financial statements
21. Uncorrected misstatements and disclosure items
22. Any significant matters arising during the audit in connection with The City's related parties

# Appendix 5 – Audit team

## Main Audit Engagement Team

|  |  |                           |  |
|--|--|---------------------------|--|
| <b>Lead Client Service Partner and Audit Partner</b> | <b>Harman Gill</b><br><a href="mailto:hgill@deloitte.ca">hgill@deloitte.ca</a><br>+1 (403) 267-1850        | <b>Lead Audit Partner</b> | <b>Ivana Cvitanusic</b><br><a href="mailto:icvitanusic@deloitte.ca">icvitanusic@deloitte.ca</a><br>+1 (403) 648-3242 |
| <b>Audit Senior Manager</b>                          | <b>Sanjeev Rajani</b><br><a href="mailto:srajani@deloitte.ca">srajani@deloitte.ca</a><br>+1 (780) 421-3724 | <b>Audit Manager</b>      | <b>Simona Milojevik</b><br><a href="mailto:smilojevik@deloitte.ca">smilojevik@deloitte.ca</a><br>+1 (780) 401-3924   |

|                         |   |
|-------------------------|---|
| <b>Advisory Partner</b> | <b>Nicole Torgrimson</b><br><a href="mailto:ntorgrimson@deloitte.ca">ntorgrimson@deloitte.ca</a><br>+1 (403) 267-1767 |
|-------------------------|---|

## Specialists

|                                  |   |                                    |  |
|----------------------------------|---|------------------------------------|--|
| <b>Quality Assurance Partner</b> | <b>Quintin Weitz</b><br><a href="mailto:qweitz@deloitte.ca">qweitz@deloitte.ca</a><br>+1 (403) 503-1378 | <b>Risk Advisory (IT) Director</b> | <b>Neeraj Kumar</b><br><a href="mailto:neekumar@deloitte.ca">neekumar@deloitte.ca</a><br>+1 (403) 219-4639 |
|----------------------------------|---|------------------------------------|--|

|                                   |   |
|-----------------------------------|---|
| <b>Risk Advisory (IT) Manager</b> | <b>Bharat Puri</b><br><a href="mailto:bharpuri@deloitte.ca">bharpuri@deloitte.ca</a><br>+1 (587) 933 9669 |
|-----------------------------------|---|

## Related Authorities

### **ENMAX**

Blair Kraus/Wade Paget  
Audit Partners  
Eugene Otsuka – Audit Senior Manager

### **Calhome Properties Ltd.**

Harman Gill/Ivana Cvitanusic  
Audit Partners  
Sanjeev Rajani – Audit Senior Manager

### **TELUS Convention Centre**

Harman Gill/Ivana Cvitanusic  
Audit Partners  
Shadab Tahir – Audit Manager

### **Calgary Municipal Land Corporation**

Harman Gill/Ivana Cvitanusic  
Audit Partners  
Shadab Tahir – Audit Manager

### **Calgary Police Service**

Harman Gill/Ivana Cvitanusic  
Audit Partners  
Shadab Tahir – Audit Manager

### **Calgary Public Library**

Harman Gill/Ivana Cvitanusic –  
Audit Partners  
Shadab Tahir – Audit Manager

# Appendix 6 – 2023 Summary audit timeline

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

|   | July | August | September | October | November | December | January | February | March | April | May | June |
|---|------|--------|-----------|---------|----------|----------|---------|----------|-------|-------|-----|------|
| <b>Procedures:</b>  |      |        |           |         |          |          |         |          |       |       |     |      |
| Audit planning including scope, risks of fraud and fees   | •    | •      |           |         |          |          |         |          |       |       |     |      |
| Audit procedures performed on areas of risks, areas of focus and significant and complex transactions   |      | •      |           |         | •        |          |         |          | •     |       |     |      |
| Audit work on the adoption and implementation of new accounting standards   | •    | •      | •         |         | •        |          |         | •        | •     | •     |     |      |
| August 2023: First interim visit. We will perform the following procedure during our first interim: <ul style="list-style-type: none"> <li>Audit planning</li> <li>Design and implementation testing of internal controls</li> </ul>  |      | •      |           |         |          |          |         |          |       |       |     |      |
| November 2023: Second interim visit. We will perform the following procedures during our second interim: <ul style="list-style-type: none"> <li>Substantive testing of expenditures, sale of goods and services, payroll, TCA additions and capital deposits</li> <li>Design and implementation testing of internal controls</li> </ul> |      |        |           |         | •        |          |         |          |       |       |     |      |
| Final year-end 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   |      |        |           |         |          |          |         |          |       | •     |     |      |
| Update to External Auditor 2022 Management Letter   |      |        |           |         |          |          | •       |          |       |       |     |      |
| Present External Auditor 2023 Management Letter   |      |        |           |         |          |          |         |          |       |       |     | •    |



# Appendix 7 – New and revised accounting standards

The following is a summary of certain new standards, amendments and proposals that will become effective in 2023 and beyond.

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

## Public Sector Accounting Standards

| Title  | Description   | Effective Date for City of Calgary                   |
|--|---|--|
| <b>Effective 2023</b>                                    |   |  |
| Section PS 1201, <i>Financial Statement Presentation</i> | This Section establishes general reporting principles and standards for the disclosure of information in government financial statements.                       | December 31, 2023                                    |
| Section PS 2601, <i>Foreign Currency Translation</i>     | This Section establishes standards on how to account for and report transactions that are denominated in a foreign currency in government financial statements. | December 31, 2023                                    |
| Section PS 3041, <i>Portfolio investments</i>            | This Section establishes standards on how to account for and report portfolio investments in government financial statements.                                   | December 31, 2023                                    |
| Section PS 3280, <i>Asset retirement obligations</i>     | This Section establishes standards on how to account for and report a liability for asset retirement obligations.   | December 31, 2023                                    |
| Section PS 3450, <i>Financial Instruments</i>            | This Section establishes standards on how to account for and report all types of financial instruments including derivatives.                                   | December 31, 2023                                    |
| <b>Effective 2024</b>                                    |   |  |
| Section PS 3400, <i>Revenue</i>                          | This Section establishes standards on how to account for and report on revenue. Specifically, it differentiates between revenue arising from                    | December 31, 2024. Earlier application is permitted. |

| Title   | Description  | Effective Date for City of Calgary   |
|---|--|--|
|   | transactions that include performance obligations and transactions that do not have performance obligations.   |  |
| Guideline PSG 8, <i>Purchased intangibles</i>                         | This Guideline explains the scope of the intangibles now allowed to be recognized in financial statements given the removal of the recognition prohibition relating to purchased intangibles in Section PS 1000.   | December 31, 2024. Earlier adoption is permitted.  |
| Section PS 1000, <i>Financial statement concepts</i>                  | This Section describes the concepts underlying the development and use of accounting principles in government financial statements. Such financial statements are designed to meet the common information needs of external users of financial information about a government. | Effective January 1, 2005. The amendments are effective for the December 31, 2024 fiscal year end. with earlier application permitted. Retroactive or prospective application is allowed. The Conceptual Framework applies to the December 31, 2027 year end. Earlier adoption is permitted. |
| Section PS 3160, <i>Public Private Partnerships</i>                   | This Section establishes standards on how to account for public private partnership arrangements.  | December 31, 2024. Early adoption is encouraged.   |
| <b>Effective 2027</b>   |  |  |
| The Conceptual Framework for Financial Reporting in the Public Sector | The PSAB’s Conceptual Framework for Financial Reporting in the Public Sector replaces the conceptual aspects of Section PS 1000, Financial Statement Concepts, and Section PS 1100, Financial Statement Objectives   | The Conceptual Framework applies to the December 31, 2027 year end. Earlier adoption is permitted. This Conceptual Framework is to be applied prospectively.   |
| Section PS 1100 - Financial statement objectives                      | This Section identifies and describes objectives of government financial statements that are generally acceptable to the users and preparers of the statements.  | This Section applies to federal, provincial, and territorial governments for fiscal years beginning on or after April 1, 2005. Earlier adoption is encouraged. The Conceptual Framework applies to fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted.          |

# Appendix 8 – Draft confirmation of changes letter

July 19, 2023

## 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

Mr. Les Tochor  
Acting Chief Financial Officer/General Manager of Corporate Planning and Financial Services  
The City of Calgary  
PO Box 2100, Station M  
Calgary, AB T2P 2M5

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

Dear Sirs:

This letter is issued to you further to the master services agreement (“MSA”) between The City of Calgary (“The City”) and Deloitte LLP (“Deloitte”) dated July 25, 2018. This letter is subject to the terms of the MSA, the appendices to the MSA, the general business terms that form part of the MSA, any previous confirmation letters issued pursuant to the MSA and all as may be updated or amended from time to time.

The purpose of this letter is to confirm our mutual understanding of the changes to fees and updates to the general business terms.

## Changes to fees

The MSA, and any confirmation letters subsequently issued under the MSA, set out the entities we will serve and the nature of the services and our fees.

For the current year, the chart below sets out the entities and the Services we will provide to them in respect of their year ends. The chart also sets out an estimate of our professional fees. In addition to the professional fees, you will reimburse us for reasonable expenses and pay an administrative charge of 7% of professional fees, and applicable taxes.

| The City of Calgary   | Fees             |
|---|------------------|
| <i>Year ending December 31, 2023</i>  |                  |
| Consolidated financial statement audit  | \$429,685        |
| Municipal Information Return  | \$5,018          |
| Funds Held in Trust audit   | \$1,953          |
| Procedures with respect to adoption of new accounting standards*  | TBD              |
| Additional audit and non-audit services as requested by the Audit Committee up to approval limit of \$50,000 annually | \$50,000         |
| <b>Total</b>  | <b>\$486,656</b> |

\*The fees for these services will be determined based on level of effort required as our understanding on the impact to the consolidated financial statements is refined. We expect that these fees will be communicated to Administration and the Audit Committee in a phased approach which aligns with Administration’s implementation timeline.

### Update of General Business Terms

The City of Calgary (the “Client”) and Deloitte agree to the following new or modified general business terms being added to the general business terms of the MSA:

**Publicity** – The Client shall not issue any press release or make any statements to the media pertaining to Deloitte, refer the media to Deloitte or ask Deloitte to act as media spokesperson on behalf of the Client, make any public statement relating to this MSA, the Services, the Deliverables (where applicable) or the parties’ business relationship without the prior written consent of Deloitte, nor shall the Client disclose the existence or contents of this Engagement Letter, except as required by law.

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

This confirmation letter (including any appendices and documents incorporated by reference) will continue in force for future services provided by us to you unless amended.

Please sign and return the attached copy of this letter to indicate your acknowledgement that it is in accordance with your understanding of the arrangements for our engagement for fiscal year 2023.

Yours truly,

Chartered Professional Accountants

Enclosure

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

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Signature

---

Title

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

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Signature

---

Title