

January 18, 2024

**Private and confidential**

Carla Male, Chief Financial Officer and  
General Manager, Corporate Planning & Financial Services  
The City of Calgary  
800 MacLeod Trail SE  
Calgary AB T2P 2M5

Dear Ms. Male:

Following the completion of the December 31, 2022 audit of the consolidated financial statements (the “financial statements”) of The City of Calgary (“The City”), we provided a letter of recommendations to Administration and the Audit Committee on June 15, 2023. This letter included recommendations we identified during the fiscal 2022 and 2020 audits. These matters were not material in nature in the context of the financial statements taken as a whole and did not impact our ability to issue our auditor’s report.

This letter provides an update to the letter presented on June 15, 2023, based on our interim audit procedures performed through to December 2023, including Administration’s response. Please refer to “Administration’s response - January 2024” and “Auditor’s update - January 2024” for specific details.

We examined the accounting procedures and systems of internal control employed by The City to the extent we considered necessary to make an evaluation of such systems and procedures in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). The objective of a financial statement audit conducted in accordance with Canadian GAAS is to express an opinion on the fairness of the presentation, in all material respects, of The City’s financial statements for the year ending December 31, 2022 in accordance with Canadian public sector accounting standards (“PSAS”).

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

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

We have included in this letter an update to observations we identified during the prior years' audits, based on procedures performed during the 2023 interim audit.

The following summarizes the status of the management letter points:

Title of Observation	Year Identified	Appendix	Status
Matters relating to implementation of realignments	2022	A	Addressed
Automation of the consolidation process	2020	B	In progress

This communication is prepared solely for the information and use of, as applicable, Administration, the Audit Committee, members of Council and others within The City. Further, this communication is not intended to be and should not be used by anyone other than these specified parties or summarized, quoted from or otherwise referenced in another "document" or "public oral statement". We accept no responsibility to a third party who uses this communication.

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

Yours truly,

*Deloitte LLP*

Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

## Appendix A – Update to December 31, 2022 observations

*Matters relating to implementation of realignment (update to December 31, 2022 year-end observations)*

Year identified - 2022

### Observation

The City of Calgary underwent a reorganizational realignment which divided and transformed the existing structure of 28 business units (“BUs”) into a new structure of 36 BUs. We commend Administration, the BUs and others that were involved in executing a successful realignment. Based on our audit procedures performed to test the realignment activities, and as communicated in our year-end report, we did not identify any material misstatements. We have, however, through this letter provided observations and recommendations as areas of improvement should The City undertake a similar exercise in the future.

While the realignment was effective January 1, 2022, the formal transition date was set mid-way through fiscal 2022, resulting in a significant amount of master financial data required to be transferred to the new structure as of August 1, 2022. This process involved the realignment of Fund 20, 40, 42 and 50 transactions, tangible capital assets, and budget balances to the new business unit structure. This was a significant exercise where business units were required to manually transfer financial data through the use of excel spreadsheets and a significant number of manual journal entries in order to effect the realignment as of January 1, 2022. We also observed that although the initial cut-off of data was set for August 1, 2022; due to the complexity and volume of transition activities and availability of resources, the realignment activities continued over the following six months leading up to year-end. Realignment journal entries were posted throughout this period in order to reconcile all financial information, which further increased the risk of material misstatement. As the data transfer was incomplete during the preparation of September periodics, Administration was not able to reconcile the September periodics and instead implemented an additional periodics reporting period for the month of November to ensure complete and accurate data leading up to year-end. Deloitte noted that executing the transition mid-way through the year added to the time and effort required for the transition and required significant resources. It was observed that the business units were not only performing realignment activities but undertaking their regular activities which included preparing for periodics reporting.

As a result of the audit procedures that we performed in the year, we also noted that the realignment was executed differently across business units, resulting in inconsistencies in the use and format of mapping workbooks. Additionally, it was noted that various sections of the spreadsheets were completed by different individuals/teams which increased the risk around the integrity of the workbooks and opportunity for unintentional human error.

We further note that the realignment was undertaken through the use of manual processes and excel spreadsheets. While no material misstatements were identified, the use of manual processes and excel spreadsheets increases the risk of unintentional errors and requires more time, effort and resources.

## Recommendation

We recommend that when implementing a significant reorganization or transformation in the future, The City considers timing of execution and aligns it with a reporting cycle such as year-end. This would result in a more streamlined and efficient process that would require less additional reconciliation of financial data, use of journal entries and would ultimately require less effort and resources. Deloitte also recommends The City consider a consistent uniform approach across all business units, where an overarching process document dictates the procedures and controls to be implemented across all activities. In addition, we suggest The City considers an automated approach for future transitions or re-organizations to limit manual updating of workbooks. This will reduce the opportunity for human error and judgment, while increasing accountability among preparers and reviewers as well as strengthen the ability to identify outliers or other considerations that may require special approval.

## Administration response

Administration agrees with the best practice recommendations relative to aligning the timing of execution to the start of a reporting cycle and having an automated, consistent, and uniform approach across the organization. The City will take this recommendation under advisement should another significant reorganization or transformation be implemented in the future.

## Administration's update – January 2024

Administration continues to agree with the best practice recommendations relative to aligning the timing of execution to the start of a reporting cycle and having an automated, consistent, and uniform approach across the organization. Finance has communicated Deloitte's recommendation to the Corporate Realignment Team for consideration into any future organizational realignments and the recommendation was included in the Organization Realignment Close Out Report, which was presented to the Executive Leadership Team on July 24, 2023.

## Auditor's update – January 2024 (based on 2023 interim audit procedures):

Administration has agreed with our recommendations provided in our initial letter presented to Audit Committee on June 15, 2023. We will monitor and assess Administration's progress in actioning our recommendations when The City encounters an applicable comparable transaction in the future. However, until that time for the purposes of this letter, our recommendations have been satisfactorily addressed.

## Appendix B – Update to December 31, 2020 observations

*Automation of the consolidation process (update to December 31, 2020 year-end observations applicable to 2023)*

Year Identified - 2020

### Observation

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

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

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

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

### Recommendation

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

## Administration response

Administration agrees with this recommendation. Currently, there are appropriate internal controls in place to prepare an accurate and complete consolidation; however, Corporate Financial Reporting (“CFR”) will review the current consolidation process in 2021 for additional improvements and consider the available options for the implementation of an automated process for the future. CFR recognizes that given the nature and size of The City, including its related authorities, an automated process for the consolidation would result in the generation of useful reports, increased efficiencies and timeliness of the financial reporting process and reduce the risk profile of the current manual process. Implementation of a consolidation system is a multi-million dollar commitment by The City and would require capital prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature. CFR will prepare a business case by the end of fiscal 2021 and engage with internal IT resources for scope and cost considerations. Dependent on these findings, CFR may submit an application for funding in the next four-year budget cycle.

## Administration’s update - January 2023

Administration continues to agree with this recommendation. The business case has been approved internally and was included for funding considerations as part of the 2023-2026 Service Plans and Budgets with approval by Council on November 25, 2022. Implementation of a consolidation system is a multi-year commitment by The City and will require prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature. Finance will review priorities for the next four-year cycle and will engage with internal IT resources for prioritization of the business case and further scope, cost and implementation timing considerations.

## Auditor’s update - January 2023 (based on 2022 interim audit procedures)

We will continue to obtain updates from Administration on the progression of the business case for an automated consolidation process. During our year-end fieldwork, we will perform our planned audit procedures on the consolidation and will report any deficiencies or further recommendations to Administration and Audit Committee upon the completion of the 2022 year-end audit.

## Auditor’s update June 2023 (based on 2022 year-end audit procedures)

We continue to recommend that Administration implement an automated process relating to the preparation of the consolidated financial statements to minimize the risk of errors, integrity issues, generate useful reports and to increase efficiency and timeliness of the financial reporting process.

## Administration’s update June 2023 (based on 2022 year-end audit procedures)

Administration continues to agree with this recommendation. The business case has been approved for funding with scoping beginning in 2024 as part of the 2023-2026 Service Plans and Budgets that was approved by Council on November 25, 2022. Implementation of a consolidation system is a multi-year commitment by The City and will require prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature. Finance will review priorities for the next four-year cycle and will engage with internal IT resources for prioritization of the business case and further scope, cost, and implementation timing considerations.

### Administration's update - January 2024

Administration continues to agree with this recommendation. The business case was approved in November 2022 as part of the 2023-2026 Service Plans and Budgets with funding commencing in 2024. Finance has committed to review the business case in the second half of 2024 to initiate preparation work on the consolidation project. Implementation of a consolidation system is a multi-year commitment by The City and will require prioritization in competition with many other high-priority initiatives with benefits primarily qualitative in nature.

### Auditor's update – January 2024 (based on 2023 interim audit procedures):

We will continue to monitor Administration's activities and progress as they work through the steps to automate the consolidation process.