

The Calgary Parking Authority Control Environment

EXECUTIVE SUMMARY

The Calgary Parking Authority (CPA) currently follows the 1992 COSO (Committee of Sponsoring Organizations) framework. The core values of this framework remain the same but needs to be updated to the 2013 framework to be relevant to today's environment.

ADMINISTRATION RECOMMENDATION (S)

Administration recommends the Audit Committee approves:

The Calgary Parking Authority adopts the 2013 COSO framework.

PREVIOUS DIRECTION / POLICY

As part of CPA's proactive risk management culture, it has taken a similar approach to The City of Calgary. The City of Calgary uses ISO 31000. CPA uses COSO. These two frameworks are the two leading Enterprise Risk Management (ERM) frameworks which are most commonly used and referenced by organizations. The two frameworks are very similar and provide a structured approach to ERM.

In the regular meeting of the CPA Board, the Board endorsed including the control environment as part of the package for presentation to The City Audit Committee on May 15, 2014. The report on the control environment was referred back to the CPA Audit Committee for a detailed page-by-page review.

BACKGROUND

In 1992, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released its *Internal Control – Integrated Framework* (the original framework). The original framework gained broad acceptance and is widely used around the world. It is recognized as a leading framework for internal control and risk management and has gained considerable influence because it is linked to Sarbanes-Oxley¹ requirements for companies listed in the United States.

In the twenty years since the inception of the original framework, business environments have become more complex, technology driven and global. As well, stakeholders are more engaged, seeking greater transparency and accountability for the integrity of systems of internal control that support business decisions and governance of the organization.

¹ The Sarbanes-Oxley Act of 2002 (often shortened to SOX) is legislation enacted in response to the high-profile Enron and WorldCom financial scandals to protect shareholders and the general public from accounting errors and fraudulent practices in the enterprise. The act is administered by the Securities and Exchange Commission ([SEC](#)), which sets deadlines for compliance and publishes rules on requirements.

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INVESTIGATION: ALTERNATIVES AND ANALYSIS

What has not changed

The core definition of internal control and the five components of internal control remain unchanged fundamentally in the framework.

Internal control is defined as:

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

The five components of internal control remain the same:

1. Control environment: set of standards and processes that provide the basis for carrying out internal control across the organization;
2. Risk assessment: risk is defined as the possibility that an event will occur and adversely affect the achievement of objectives;
3. Control activities: the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out;
4. Information and communication: information is necessary to carry out internal control responsibilities to support the achievement of objectives;
5. Monitoring activities: ongoing evaluations to ascertain whether each of the five components is present and functioning.



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What has changed

Some of the significant changes are:

1. In addition to controls for financial reporting, there is an added emphasis on controls for compliance and operations.
2. The new framework reflects increased relevance of technology.
3. There is an increased emphasis on risk and fraud, and potential causes.
4. It applies a principles-based approach: existing five components are expanded to include 17 principles.
5. Within each 17 principles are areas of focus providing guidance on whether the principle is present and functioning.

Stakeholder Engagement, Research and Communication

The CPA control environment assessment will be reviewed by the CPA Audit Committee on an annual basis. During 2014, this framework will be actively used by senior management as direction and guidance in defining, designing, implementing and conducting internal control and in assessing its effectiveness. To assess whether the system of internal control at the CPA is effective, management has evaluated each of the components to determine whether they are present and functioning and whether the components are operating together in an integrated manner. See Attachment 2 CPA Control Environment Assessment.

Management has identified some minor internal control deficiencies and will resolve them over the course of 2014. Management has assessed the individual deficiencies as well as considered them collectively across the organization. In management's judgement, these do not represent a major deficiency which would prevent CPA from achieving its objectives.

Strategic Alignment

CPA is in alignment with the similar risk management processes that The City has in place with ISO 31000.

Social, Environmental, Economic (External)

No implications were identified.

Financial Capacity

Current and Future Operating Budget:

No implications were identified.

Current and Future Capital Budget:

No implications were identified.

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Risk Assessment

The initial framework adopted by the CPA emphasized internal controls over financial reporting. The updated framework extends the internal controls beyond reporting to operations and compliance. The risks of not implementing the new framework could result in CPA not achieving its objectives as effectively or efficiently, could result in missed oversight and lack of focus in anti-fraud measures.

REASON (S) FOR RECOMMENDATION (S):

Internal control helps the CPA achieve important objectives and sustain and improve performance. COSO's *Internal Control – Integrated Framework* enables the CPA to effectively and efficiently develop systems of internal control.

By adopting the 2013 framework, this will enable CPA to effectively and efficiently develop/change systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization.

ATTACHMENT (S)

Attachment 1 COSO *Framework* PowerPoint
Attachment 2 CPA Control Environment Assessment