

June 13, 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:

We have recently completed our audit of the consolidated financial statements of The City of Calgary (“The City”) for the year ended December 31, 2023.

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, 2023 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 not identified any new items that would be of interest to Administration resulting from the 2023 audit. We have included in this letter an update to observations we identified during the prior years’ audits, based on procedures performed during the 2023 audit.

The following summarizes the status of the management letter points:

Title of Observation	Year Identified	Appendix	Status
Automation of the consolidation process	2020	A	In progress

The City of Calgary
June 13, 2024
Page 2

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

Yours truly,

Deloitte LLP

Chartered Professional Accountants

cc: The Audit Committee of The City of Calgary

Appendix A – Update to December 31, 2020 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 (based on 2022 interim audit procedures)

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 (based on 2023 interim audit procedures)

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.

Auditor's update – June 2024 (based on 2023 year-end audit procedures)

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

Administration's update - June 2024 (based on 2023 year-end audit procedures)

Administration continues to agree with this recommendation. As part of Finance's commitment to review the approved business case in the second half of 2024 to initiate the preparation of work on the consolidation project, recruitment is underway for a subject matter expert resource to join the Finance team to support and deliver this project. While the benefits of a consolidation project are primarily qualitative in nature, The City's commitment to this multi-year project continues to deliver on Council's focus area of modernizing government.