

Corporate Planning & Financial Services Report to  
Audit Committee  
2024 October 17

ISC: UNRESTRICTED  
AC2024-1031

## Annual Control Environment Assessment Report

### PURPOSE

This report presents the status of the Control Environment Assessment Program and the 2023 year-end assessment of internal controls over financial reporting and is provided to the Audit Committee for information.

### PREVIOUS COUNCIL DIRECTION

On 2020 January 24, Audit Committee approved (AC2020-0023) that Administration cease the current Annual Control Environment Assessment and develop and implement a project plan to identify, document, and test key internal controls over financial reporting at a demonstrable level with annual updates to the Audit Committee. Refer to Attachment 1 for further direction provided by the Audit Committee for this program.

### RECOMMENDATION(S):

That the Audit Committee:

Direct that Attachment 4 be discussed in closed meeting and remain confidential under Sections 24 (Advice from officials) and 25 (Disclosure harmful to economic and other interests of a public body) of the *Freedom of Information and Protection of Privacy Act (Alberta)*, to be reviewed by 2026 January 01.

### CITY MANAGER/GENERAL MANAGER COMMENTS

The Chief Financial Officer and General Manager of Corporate Planning & Financial Services concurs with this report.

### HIGHLIGHTS

- Attachment 2 of the report includes an overview of the Control Environment Assessment Program and the 2023 year-end testing results. Overall, the program is proceeding as planned. For the 19 processes tested for the 2023 year-end, Administration has concluded that key internal controls over financial reporting are operating effectively.
- **What does this mean to Calgarians?** The report provides information to the public on The City's internal controls over financial reporting. 97% of key internal controls tested in phase 3 of the program were found to be operating effectively with only 6 minor deficiencies and no significant deficiencies identified. Administration is actively progressing to remediate these deficiencies.
- **Why does this matter?** Assessing and reporting on the effectiveness of The City's internal controls over financial reporting is a component of overall good corporate governance. The assessment enables Administration to:
  - focus on continuous improvement and monitoring of processes and internal controls over financial reporting; and

## Annual Control Environment Assessment Report

- provide increased assurance to the Audit Committee and the public on the effectiveness of internal controls.
- The Control Environment Assessment Program includes:
  - high-level documentation of processes in scope;
  - identification and documentation of key internal controls over financial reporting;
  - control walkthroughs;
  - testing of key internal controls over financial reporting; and
  - COSO control environment principles self-assessment.
- The Control Environment Assessment Program is being implemented in phases, over multiple years, as approved by the Audit Committee on 2022 February 10 (AC2022-0106). This is the last phase of the initial 3-year program. Administration has developed a Sustainment Plan for this program, refer to Attachment 3.
- Attachment 4 is confidential and provides a follow-up on the significant deficiencies identified in the 2021 and 2022 Annual Control Environment Assessment Reports. Management has fully remediated several significant deficiencies and has developed action plans to remediate remaining items. The deficiencies have not resulted in a material misstatement of The City's financial statements; however, they are important enough to merit confidential disclosure to the Audit Committee.
- Attachment 5 includes:
  - a self-assessment by various departments on the COSO control environment principles;
  - one area of focused testing to validate the self-assessment with control evidence; and
  - examples where Audit Committee and Council received information in fiscal 2023 from various areas that address certain elements of the COSO control environment principles.

From the self-assessment, Administration has concluded that structures and policies exist to address the COSO control environment principles.

From the area of focused testing, Administration has concluded that the control is designed and operating effectively. A recommendation from the 2022 Annual Control Environment Assessment is currently being addressed.

## **DISCUSSION**

Refer to Attachment 2 of the report for details on the status of the Control Environment Assessment Program and the 2023 year-end assessment.

## **EXTERNAL ENGAGEMENT AND COMMUNICATION**

- |  |   |
|--|---|
| <input type="checkbox"/> Public engagement was undertaken        | <input type="checkbox"/> Dialogue with interested parties was undertaken                |
| <input type="checkbox"/> Public/interested parties were informed | <input checked="" type="checkbox"/> Public communication or engagement was not required |

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### IMPLICATIONS

#### Social

Not Applicable

#### Environmental

Not Applicable

#### Economic

Not Applicable

#### Service and Financial Implications

#### Existing operating funding - base

Utilizing existing approved operating base budget for this program.

### RISKS

Significant project risks are as follows:

- 1) Finance and business unit staff may not have sufficient capacity to participate in this annual control assessment due to competing corporate priorities; and
- 2) Additional scope within the Control Environment Assessment Program may occur jeopardizing the approved project timelines and deliverables.

Administration will continue to manage and monitor these risks and if required bring forward to Audit Committee significant issues for discussion and recommendations. Refer to Attachment 2 for current risk responses.

### ATTACHMENT(S)

1. Previous Council Direction, Background
2. Control Environment Assessment Program & 2023 Year-End Assessment
3. Sustainment Plan and Future Program Activities Planned
4. CONFIDENTIAL - Significant Deficiencies and Management Action Plans
5. COSO Control Environment Principles Self-Assessment and 2023 Reports
6. Presentation, Annual Control Environment Assessment

Department Circulation

General Manager/Director	Department	Approve/Consult/Inform
Les Tochor, Director	Finance	Approve
Carla Male, Chief Financial Officer and General Manager	Corporate Planning & Financial Services (CPFS)	Approve

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