

Calgary Housing Company

Internal Control Environment Self-Assessment Report

BACKGROUND

On September 19, 2016, Calgary Housing Company (CHC) Administration presented through report CHC2016-A09 to the CHC Audit and Risk Management (ARM) Committee, recommended and received approval that CHC adopt the Committee of Sponsoring Organizations (COSO) of the Treadway Commission: Integrated Framework to guide future internal control environment assessment and reporting. This report also included an implementation process and schedule to conduct a self-assessment of current internal control environment at the entity level of CHC.

The implementation of an internal control environment framework, assessing of internal controls effectiveness and reporting is to provide the ARM Committee and CHC Board with an overview of CHC's current internal control environment controls, an assurance that adequate controls are in place and a commitment to ongoing continuous improvement.

Reviewing the effectiveness of internal controls is an essential part of the CHC Board of Directors responsibilities while management is accountable to the Board of Directors for developing, operating and monitoring the system of internal control and providing assurance to the Board that it has done so.

The integrated internal control framework of the Committee of Sponsoring Organizations (COSO) of the Treadway Commission: the COSO Internal Control – Integrated Framework is the most widely used framework for Sarbanes-Oxley Act (SOX) compliance and is the model of choice in many North American jurisdictions, including Canada. It is also currently utilized by The City of Calgary and the Calgary Parking Authority.

Internal control is defined as “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.” (COSO Internal Control-Integrated Framework)

Internal control is a means by which an organization's resources are directed, monitored, and measured, thus playing an important role in detecting and preventing fraud and protecting the organization's resources, both physical and intangible.

In December 2017, CHC Administration presented the first internal controls self-assessment for the Calgary Housing Company. As there have not been any updates since then, this is an iteration of the report presented in December 2017.

CHC INTERNAL CONTROL ENVIRONMENT SELF-ASSESSMENT INVESTIGATION

Objective:

The objective of the CHC Internal Control Environment Self-Assessment is to identify CHC's existing system of internal controls at the entity level.

Methodology:

The following procedure was performed:

- Engaged senior level management representing each operational division of CHC to identify existing internal controls and their owners
- Conducted one on one interviews with senior management regarding current status of internal controls of CHC at the entity level. This is based on the best management judgement information on the effectiveness of these controls and any further actions planned to improve these controls and mitigate any identified deficiencies. This is a top-down assessment of critical internal environment controls

Internal Control Evaluation criteria used when completing the 2017 CHC Internal Control Self-Assessment Questionnaires:

- ✓ Present: Does a control exist (designed & implemented)? Answer: Yes or No
- ✓ Functioning: Does the control operate as intended to achieve objectives? Answer: Yes or No
- ✓ Major Deficiency: Management comment if a control exist and is there a major deficiency in the way the control operates to extent that one or more principles is omitted or effectively nonfunctional.
- Reviewed supporting documentation. For example: formal and informal written internal policies, procedures, manuals
- Consolidated the management responses into one assessment report and opportunities for improvement list.

Limitations of the Self-Assessment:

Internal control can be expected to provide only reasonable assurance to management and board of directors of the achievement of CHC's objectives. No system of internal control will always do what it is designed to do or provide absolute assurance for any of the objective categories. While there are internal control limitations, management must be aware of these when selecting, developing and deploying controls that can practically minimize these limitations.

Types of limitations to internal control are:

- Preconditions of Internal Control such as weak governance
- Flawed human judgment in decision making
- External events outside the organization's control
- Breakdowns due to human errors
- Management can override the system of internal control
- Circumvent controls through collusion by staff

Resources:

The project is supported with resources provided internally by CHC pending availability and direction for CHCMT and ARM Committee.

Testing of Internal Controls:

This project is a review of the entity level internal controls at CHC. No testing was performed at the operational or functional level. CHC is currently, through the implementation of the Enterprise System Solution (ESS) is undergoing a systems, processes and procedures review in all areas of the organizations as it is preparing to transition to new technology in 2018. As such, further scoping of work of a consultant resource to

test CHC internal controls could be reviewed in the next phase as instructed by the ARM committee and CHCMT.

INTERNAL CONTROL FRAMEWORK RECOMMENDATION

Based on the assessment, CHC Administration's conclusion and recommendation is that the overall system of internal controls is effective. The conclusion is based on the professional experience and judgement of the Administration. CHC division managers and the President self-assessed whether the internal controls they are accountable for are present and functioning.

Some opportunities for improvement were identified at the individual internal control level. These individual opportunities for improvement do not impact the overall effectiveness of the system of internal controls. CHC Management team is committed to ongoing continuous improvement of internal control processes and recommends appropriate resources be assigned as required.