



AC2019-0529

Control Environment Assessment Report

**Chief Financial Officer's Report to Audit Committee
2019 April 23**

CITY OF CALGARY RECEIVED IN COUNCIL CHAMBER
APR 23 2019
ITEM: <u>6.1 AC2019-0529</u>
<u>Public</u>
CITY CLERK'S DEPARTMENT



COSO Framework

- Administration has provided an annual Control Environment Assessment Report since 2004
- The City's Control Environment Assessment Report is based on the COSO Internal Control– Integrated Framework
- COSO Framework is the most widely adopted control framework for evaluating internal controls
- Framework is comprised of 5 components of internal control and 17 principles



Effective Internal Controls

For internal controls to be deemed effective, each of the five components of internal control and relevant principles must be present and functioning and the five components operating together in an integrated manner.

(Internal Control – Integrated Framework, COSO, 2013 May, p.18)



Assessment Process

- Information provided by:
 - Business unit's respective Finance Managers and Directors
 - Management representations made within each business unit
- Business unit Finance Managers and Directors self-assessed
 - Directors have approved their business units' contributions
- Assessments based on management's professional judgement and experience

Administration's Conclusion

- Overall system of internal controls over The City's financial reporting is considered effective
- One deficiency, and some opportunities for improvement, have been identified
 - Deficiency pertains to capital financing-related revenue recognition
 - The comprehensive system of internal controls over The City's financial reporting remains effective
- Administration is committed to ongoing continuous improvement of internal control processes; appropriate resources are being assigned as required.

Administration Recommendation

That the Audit Committee:

- 1. Receives this report for information**
- 2. Directs that Attachment 3 and the closed session discussions remain confidential pursuant to Section 25(1)(b) and (c) of the Freedom of Information and Protection of Privacy Act to be reviewed by 2021, April 23.**



APPENDICES

Format of the report

- Cover report – introduction and conclusions
- Attachment 1 – control environment assessment
- Attachment 2 – components of internal control
- Attachment 3 – opportunities for improvement (confidential)
- Attachment 4 – deficiency identified



Deficiency – Revenue Recognition

- Business units recognize revenue by apply funding sources to capital expenditures incurred during the year.
- In 2016 and 2017, not all capital expenditures were properly assigned with funding sources; some revenues therefore went unrecognized
- New processes and procedures have been implemented to correct this issue, including the completion of a new annual capital financing summary report
- Refer to Attachment 4 for more information.

Annual Control Environment Assessment Audit

- City Auditor's Office reviewed the Annual Control Environment Assessment; reported February 28, 2019
- Three recommendations: one agreed, two partially agreed (contingent on results of first)
 - Define and communicate the type and level of control included within the Assessment.
 - Establish a control oversight system, including control ownership and associated Director-level sign-off.
 - Ensure that controls are worded and presented so as to be demonstrable
- Director sign-off on contributions implemented for 2019 report



Annual Control Environment Assessment Audit

- Planned meetings with members of the Audit Committee over the coming months to gain information and guidance
 - Consultation expected to conclude by September 2019
 - Results will be grouped into themes and presented to Audit Committee as recommendations to select from
 - Results of consultations with Audit Committee will inform Administration's response
 - Changes should be implemented for next year's Control Environment Report
- Several potential results: scope changes, differences in level of granularity, enhanced level of assurance and review