

Deloitte LLP**Update on The City of Calgary ("The City") 2023 Audit
February 15, 2024, Audit Committee - Closed Meeting**Adoption of New Accounting Standards (Financial Instruments ("FI"), Asset Retirement Obligations ("ARO"), collectively ("New Accounting Standards"))

As of the date of mailing this document and further to our communication on October 12, 2023, we continue to work with Administration on the adoption of the New Accounting Standards applicable for the audit of the 2023 consolidated financial statements (the "financial statements"). At this time we are pleased to communicate that we are on track based on Administration's timeline, and have completed our work on Phase 1 for both ARO and FI. We expect the remaining work shown below as in progress for phases 2 and 4 to be completed during our year-end fieldwork. At this time we have no concerns to be raised to Audit Committee.

As we progress through completing phases 2 and 4, we will continue to update the Audit Committee on our progress and any adjustments to our estimated fees.

Phase*	Fee estimate	Fees charged to date	Status- FI	Status - ARO
Phase 1a) Understand the scope and review Administration position papers (July 2022 - September 2023)	\$30,000	\$30,000	Completed	Completed
Phase 1b) Understand adoption methodology and perform testing of key assumptions and models (May 2023 - January 2024)	\$70,000	\$70,000	Completed	Completed
Phase 2 Evaluate design and implementation of key controls around adoption and perform substantive procedures on initial adjustment (June 2023 - March 2024)	\$80,000	\$57,500	In progress	In progress
Phase 3 Evaluate system changes and assess additional audit procedures, if applicable (TBD)	TBD	-	N/A	Not started
Phase 4a) Review and evaluate disclosures related to the adoption of these new standards (August 2022 - April 2024)	\$15,000	\$7,500	In progress	In progress
Phase 4b) Perform substantive audit procedures on adjustments and year end entries (February - April 2024)	Included in our 2023 base audit fees	N/A	Not started	Not started

*Scope of work excludes audit procedures performed on the subsidiaries of The City that are also required to adopt the new accounting standards, which component audit teams handle directly with subsidiary management.

Planned audit procedures**Phase 1 - Understand the scope of each standard, assess impact to financial statements, evaluate completeness of analysis and understand underlying assumptions.****a. Understand the scope and review Administration position papers**

- We will continue to engage with Administration on their timeline for the implementation of the upcoming accounting standards.
- We will review and assess The City's analysis, including the methodology, assumptions and estimates, as the information becomes available to us.

b. Understand adoption methodology and perform testing of key assumptions and models

- As part of our understanding of The City, we will develop procedures to understand and evaluate Administration's process to adopt the new accounting standards, including key decisions and the results of the activities performed by Administration including, but not limited to, understanding and evaluating the following:
 - Administration's process to assess the impact of the new accounting standards by evaluating relevant contracts or transactions, performing a risk assessment and designing a plan to implement the new accounting standards (e.g., determining how to implement the new accounting standards, identifying information requirements, identifying new or modifying existing information systems, processes and internal controls used to gather and archive contracts or transactions data).
 - The inputs and assumptions of the models created by Administration to arrive at the resulting values required to be adjusted as a result of the adoption of these standards.
 - The City's project management plan that includes all relevant parties (e.g., technical accounting, financial reporting, information technology and those charged with governance) and how Administration communicates with and updates relevant parties throughout the implementation process.
 - How Administration identified underlying transactions, contracts, populations of contracts, remediation sites and financial instruments for assessment under the new accounting standards and evaluating whether a complete population was identified.
 - Whether The City has the appropriate technical expertise in the new standard (e.g., either internally or through use of outsourced service providers).
 - Administration's selection and application of the accounting principles of the new standards, including related disclosures. Administration is required to have a detailed understanding of its business including its key products and services, key provisions of contractual arrangements (and whether they can be oral or implied) and the extent to which contractual terms are standardized across the entity in order to determine how to apply the new accounting standards to its transactions.
 - Significant management judgments and estimates required to apply the new accounting standards and the information used to develop new estimates.
 - Changes to The City's policies, processes and internal controls, including accounting records and supporting information used to initiate, authorize, process and record transactions.
 - Changes made to the existing or development of new information technology systems used to capture and archive events, conditions, contracts and transaction data; develop new estimates and support new financial statement disclosures.
 - Specific industry considerations.
 - The elected method of transition (e.g., full retrospective versus modified retrospective, or prospective).
 - Estimated impact to the financial statements and related disclosures.
 - The City's process to monitor the results of the implementation by testing changes to the information system, testing the operating effectiveness of internal controls (if applicable) and addressing any issues identified during implementation.

Phase 2 – Evaluate design and implementation of key controls around adoption and perform substantive procedures on initial adjustments.

- We will design audit procedures to understand how controls affect the preparation of The City's financial statements, including understanding the design and implementation of relevant controls, which is critical to our risk assessment as ultimately the information obtained through these procedures provides audit evidence necessary to facilitate an appropriate identification and assessment of the risks of material misstatement ("RoMMs"), and design of further audit procedures responsive to the RoMMs. This understanding includes processes and relevant controls over both the determination of the accounting under the adoption of the new accounting standards as well as the transition disclosures and adjustments.
- We will design audit procedures to understand how changes to The City's processes for the implementation of a new accounting standard affects one or more components of internal control

(i.e., control environment, risk assessment, control activities, information and communication, monitoring activities).

- We will design and perform substantive audit procedures on any required adjustments made by The City on opening balances as a result of adoption of these new standards.

Phase 3 - Evaluate system changes and assess additional audit procedures, if applicable.

- As part of our understanding of internal control, we will obtain an understanding of the information systems impacted by the adoption of the new accounting standards. Information systems will often play an important role in capturing information used to initiate, authorize, process and record transactions, as well as in generating information used to develop estimates and in new required disclosures. Further, during the transition period of adopting a new accounting standard, an entity may use spreadsheets or other temporary manual processes until automated processes and controls are implemented. These short-term manual processes may present different or greater risk of material misstatement than automated processes subject to effective general information technology controls.

Phase 4 – Perform substantive audit testing of adjustments and related disclosures.

a. Review and evaluate the disclosures required as a result of the adoption of these new standards.

- We will review the disclosures included in the financial statements as a result of transition and adoption of the new accounting standards, along with any disclosure required as a result of any adjustments to opening balances.

b. Perform substantive audit testing on the adjustments and year end entries.

- We will design substantive audit procedures to audit the adjustments and year end entries for the amounts presented in the financial statements for year ended December 31, 2023.