

For Public Release

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Dept: Audit Committee

**Deloitte LLP
Update on The City of Calgary 2022 Audit
Audit Committee Closed Meeting
January 19, 2023**

Realignment Project

As of the date of mailing of this document, we have completed Phase 1 of our project plan, and we are undertaking procedures in Phases 2 and 3 as outlined below. As discussed below, we have revised our timelines and we expect the bulk of our work to be completed in January and February 2023 once Administration has completed their transition activities. To date we have held regular updates with Administration to understand the progress and status of the project, we participated in planning sessions and process walkthroughs for a significant number of transition activities in the months of November and December, and we have commenced testing of various realignment activities.

Based on our understanding of the project to date, we have updated our timelines with respect to the remaining phases. Due to certain complexities and continuing reconciliation activities undertaken by Administration, completion of certain of our procedures that we intended to complete in November and December of 2022 have now been delayed to January and February of 2023.

Our fee estimates for Phases 1 to 4 remain consistent with those we communicated at the November 17, 2022 meeting. We are still in the process of estimating effort and fees for Phases 5 and 6 for reasons outlined further in this document. We continue to monitor the effort required to complete the testing. As previously discussed, the effort and fee are dependent on volume of data processed, number and volume of underlying reports and schedules required to be audited for the master data transfer, level of decentralization of the project which may require audit tests to be applied at the business unit level, and number of controls identified during realignment activities. Our fee estimate also takes into consideration our experience with similar size clients with similar reorganizations.

While Administration has made significant strides in operationalizing the realignment in the last two months, there have been delays in completion of certain of the transition activities. Our audit approach takes into account four specific areas of the realignment:

1. Realignment of the 2022 budget amounts to reflect the post-realignment structure.
2. Realignment of the 2021 comparative financial statement amounts to reflect the post-realignment structure.
3. Realignment of the 2022 actual amounts to reflect the post-realignment structure to be effective as of January 1, 2022.
4. Realignment of the 2022 actuals related to tangible capital assets and capital activities including Fund 20, Fund 40, and Fund 42.

While August 1, 2022 was selected as the realignment go-live date, based on our discussions with Administration, we understand that not all activities were completed at that time. Specifically, as of the mailing of this document, Administration's activities related to areas 3 and 4 above continue to be in progress. Administration has informed us that certain expected complexities have arisen in these areas and we continue to work with the Administration to monitor the timelines and planned audit activities.

We commit to make every effort to optimize the efficiency of our audit procedures to manage the audit effort and related fees. We will coordinate our activities with Administration at each phase to maximize the efficiency of our audit procedures.

Phase and Planned Timing (refer to pages 2 and 3 for planned audit procedures as presented in the 2022 audit plan)	Estimated Fees	Actual fees charged	Status
Phase 1 – Understand initial realignment plan and initial scope of procedures (updated timing July to November 2022)	\$75,000 to \$150,000	\$130,000	Completed
Phase 2 – Understand key processes and evaluate controls (updated timing December 2022, January 2023, February 2023)	\$40,000 to \$70,000	TBD	In progress
Phase 3 – Audit completeness and accuracy of data transferred (updated timing January 2023, February 2023)	\$250,000 to \$450,000*	TBD	In progress
Phase 4 – Evaluate post-realignment IT controls (January 2023)	\$25,000 to \$50,000	TBD	In progress
Phase 5 – Audit financial statement disclosures and evaluate sufficiency of opening balances, apply audit procedures to 2021 comparative figures (April 2023)	TBD – fees will be presented at future meetings	TBD	In progress
Phase 6 – Audit of additional post-2022 transition impact (May 2023 and beyond)	TBD – fees will be presented at future meetings	TBD	In progress

* Phase 3 includes audit procedures applied to the transfer of master data for the period from January 1, 2022 to July 31, 2022 to transition to the new structure. Based on discussions with Administration we understand the transfer of master data was via manual journal entries. The audit effort required to test manual journal entries for a seven month period will be significant and depends on the total population and level of decentralization (i.e. is there a requirement to test at the Business Unit level) of the data and schedules to be tested. Our fee range for this phase reflects our best estimate of the minimum and maximum level of audit effort required for this phase.

Planned audit procedures (as presented in the 2022 audit plan)

Phase 1 - Understand the realignment plan including mapping of changes, key areas of impact and vulnerabilities including people, processes and systems

- Understand changes to underlying processes including people, relevant controls, systems, charts of accounts, trial balances and financial statements by obtaining detailed process flows and descriptions from Administration and performing walk-throughs of key processes relevant to the audit.
- Evaluate Administration's use of third-party experts to the extent they are determined to be relevant to the realignment.
- Involve our audit, risk advisory and assurance professionals in understanding of key changes as result of the realignment to design further audit procedures.

Phase 2 - Assess Administration's realignment plan, perform process walk-throughs of revised processes to identify potential risks of material misstatement and identify new controls to evaluate

- Evaluate design and evaluation of controls with respect to the conversion of data (both manual and system driven, to the extent applicable). Key controls with respect to conversion data are outlined below:
 - Controls that prevent inappropriate changes from being made to financial systems, application systems or programs that contain relevant automated controls (i.e., configurable settings, automated algorithms, automated calculations and automated data extraction) and/or report logic.
 - Controls that ensure data converted from legacy systems or previous versions introduces data errors to mitigate the risk that data transfers incomplete, redundant, obsolete or inaccurate data.
 - Users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.
- Evaluate the design and implementation of relevant manual controls pre-realignment and post-realignment in order to perform risk assessment procedures for the purposes of our audit; the evaluation of key controls is required for each material account balance, set of transactions and related disclosures.

Phase 3 - Audit the completeness and accuracy of the master data transferred

- Design substantive audit procedures to assess the completeness and accuracy of financial data post realignment to ensure the mapping, including 2021 financial statement comparatives, are materially stated. Our understanding is that financial data has been reclassified via manual journal entries for the period from January 1, 2022 to July 31, 2022, based on the conversion date of August 1, 2022, resulting in a potentially large population of entries to audit. Once we understand the population, we will perform risk assessment procedures to select which journal entries to test.
- Due to the realignment, we will be required to reassess our audit risks, perform design and evaluation assessments of key controls pre and post-realignment and potentially redesign our substantive audit approach and testing depending on the impact of the realignment to underlying segments and business units.

- As a result of the restatement of 2021 comparative figures we will reassess the sufficiency of our 2021 audit scope, including sample sizes determined in the 2021 audit based on restated segments of The City resulting from changes in groupings of underlying business units.

Phase 4 - Evaluate and assess operating effectiveness of underlying general IT controls ("GITCs") post-transition to ensure GITCs remain effective to preserve the planned audit approach.

- Evaluate the design and implementation, and operating effectiveness of key IT controls with respect to IT system, database, operating system and network. Due to changes in department IDs, we anticipate significant changes in change management controls, access controls, user provisioning and modifications to certain system reports.

Phase 5 - Assess the revised financial statement disclosures for completeness and accuracy, including comparatives, to understand key areas of impact.

- We anticipate changes to the Consolidated Statement of Operations and Accumulated Surplus and related disclosures for expenses by function and segmented information.
- We will perform substantive audit procedures to ensure that disclosures in the financial statements are complete and accurate and reflect the realignment methodology for the 2022 and 2021 comparative periods.
- We will perform substantive audit procedures to ensure that the budget amounts disclosed in the financial statements for 2022 are materially stated.

Phase 6 - Audit of additional post-2022 transition impact

Our understanding is that the realignment plan prioritizes the transition of certain processes, data and systems. Approximately 90 systems will be transitioned subsequent to the August 1, 2022 go-live date. As a result, additional audit procedures will be performed as those systems are transitioned and realignment steps completed.