

VILLAGE OF RADIUM HOT SPRINGS

AUDIT FINAL REPORT TO THE MAYOR AND COUNCIL

March 10, 2021

SUMMARY

Our audit and therefore this report will not necessarily identify all matters that may be of interest to the Mayor and Council in fulfilling its responsibilities. This report has been prepared solely for the use of the Mayor and Council and should not be distributed without our prior consent. Consequently, we accept no responsibility to a third party that uses this communication.



Status of the Audit

As of the date of this report, we have substantially completed our audit of the 2020 consolidated financial statements, pending completion of the following items:

- ▶ Receipt of signed management representation letter
- ▶ Receipt of outstanding legal confirmations
- ▶ Subsequent events review through to financial statement approval date
- ▶ Approval of consolidated financial statements by the Mayor and Council

We conducted our audit in accordance with Canadian generally accepted auditing standards. The objective of our audit was to obtain reasonable, not absolute, assurance about whether the consolidated financial statements are free from material misstatement. See [Appendix A](#) for our draft independent auditor's report.

Except as described in this report, the scope of the work performed was substantially the same as that described in our Planning Report to the Mayor and Council dated February 16, 2021.



Materiality

As communicated to you in our Planning Report to the Mayor and Council, preliminary materiality was \$72,000. Final materiality remained unchanged from our preliminary assessment.



Audit Findings

Our audit focused on the risks specific to your organization and key accounts. Our discussion points below focus on areas of significant risks of material misstatement, or the following items:

- ▶ Impact of COVID-19
- ▶ Recognition of Grant Revenue & Government Transfers
- ▶ Management Override of Internal Controls
- ▶ Non-monetary Transactions
- ▶ General Presumption of Possible Fraud in Revenue
- ▶ Contaminated Sites



Internal Control Matters

We are required to report to you in writing, any significant deficiencies in internal control that we have identified. The specifics of this communication are included in our report below.



Independence

Our annual letter confirming our independence was previously provided to you. We know of no circumstances that would cause us to amend the previously provided letter.



Adjusted and Unadjusted Differences

No adjusted and unadjusted differences and disclosure omissions have been identified through the course of our audit engagement.



Management Representations

During the course of our audit, management made certain representations to us. These representations were verbal or written and therefore explicit, or they were implied through the consolidated financial statements. Management provided representations in response to specific queries from us, as well as unsolicited representations. Such representations were part of the evidence gathered by us to be able to draw reasonable conclusions on which to base our audit opinion. These representations were documented by including in the audit working papers memoranda of discussions with management and written representations received from management.

We will provide you with a copy of the management representation letter which summarizes the representations we have requested from management.



Fraud Discussion

Through our planning process, and current and prior years' audits, we have developed an understanding of your oversight processes. We are not currently aware of any fraud affecting the Village.

If you are aware of changes to processes or are aware of any instances of actual, suspected or alleged fraud affecting the Village since our discussions held at planning, we request that you provide us with this information.

Please refer to the Auditor's Responsibilities for Detecting Fraud in the Planning Report to the Mayor and Council.

AUDIT FINDINGS

As part of our ongoing communications with you, we are required to have a discussion on our views about significant qualitative aspects of the Village's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. In order to have a frank and open discussion, these matters will be discussed verbally with you. A summary of the key discussion points are as follows:

SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT	RISKS NOTED	AUDIT FINDINGS
Impact of COVID-19	The global health crisis known as "COVID-19" has caused significant disruptions to workforces across the globe. This drives potential operational risks for many organizations.	COVID-19 relief measures imposed by the Village extended tax and utility billing deadlines. While this, and the decline in tourism and recreation, posed challenges for operational cash flows throughout the year, there were no significant changes to the Village's operations, and capital projects were still funded as planned. An additional note disclosure has been added to the financial statements to address the ongoing uncertainty surrounding the pandemic.
Recognition of Grant Revenue & Government Transfer Revenue	Accounting standards relating to grant and government transfer revenue recognition are complex and open to interpretation. There is a risk that grants or revenue derived from other government transfers may be incorrectly deferred into future periods or recognized prior to stipulations being met.	Grants appear to be recorded appropriately, through review of funding agreements, with a focus on key terms related to revenue recognition criteria. In response to COVID-19, the federal and provincial governments provided funding to local governments throughout BC to support operating costs and revenues. There are no recognition stipulations for the funding, enabling the Village to recognize it as revenue in the current year. A schedule to the financial statements has been added per government guidance.

SIGNIFICANT RISKS OF MATERIAL MISSTATEMENT	RISKS NOTED	AUDIT FINDINGS
Management Override of Internal Controls	Management is in a unique position to perpetrate fraud because of management’s ability to directly or indirectly manipulate accounting records, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Journal entry testing, review of key estimates, and tests of internal controls determined that all controls appear to be working effectively, and as designed.
Non-monetary Transactions	There is a risk of misstatement due to incorrect valuation of the fair value of non-monetary transactions.	Due to a large development project and the water filtration improvements, the Village had significant revenues from non-monetary transactions (developer contributions). These all appear to be appropriately recognized.
General Presumption of Possible Fraud in Revenue	The ordinary presumption of fraud risk in relation to revenue recognition in the Canadian Audit Standards.	Revenue appears to be recorded appropriately. Revenue testing methods varied by revenue stream, incorporating an element of unpredictability.
Contaminated Sites	This is a complex area that relies upon expert reports and management assumptions. There is risk surrounding the existence of sites as well as the completeness of reported liabilities disclosure, if any.	Per a review of Management’s contaminated site analysis, the Village is not responsible for any contaminated sites. Review of property tax folios and minutes did not give rise to any potential acquisition of a contaminated site through tax sale or communication from Council.

INTERNAL CONTROL MATTERS

During the course of our audit, we performed the following procedures with respect to the Village's internal control environment:

- ▶ Documented operating systems to assess the design and implementation of control activities that were relevant to the audit.
- ▶ Discussed and considered potential audit risks with management.

The results of these procedures were considered in determining the extent and nature of substantive audit testing required.

We are required to report to you in writing, significant deficiencies in internal control that we have identified during the audit. A significant deficiency is defined as a deficiency or combination of deficiencies in internal control that, in the auditor's professional judgment, is of sufficient importance to merit the attention of those charged with governance.

As the purpose of the audit is for us to express an opinion on the Village's consolidated financial statements, our audit cannot be expected to disclose all matters that may be of interest to you. As part of our work, we considered internal control relevant to the preparation of the consolidated financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

APPENDICES

Appendix A: Independent Auditor's Report

Appendix B: BDO Resources

APPENDIX A: INDEPENDENT AUDITOR'S REPORT

To the Members of Council, Inhabitants and Ratepayers of the Village of Radium Hot Springs

Opinion

We have audited the accompanying financial statements of the Village of Radium Hot Springs, which comprise the consolidated statement of financial position as at December 31, 2020, and the consolidated statements of operations, changes in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Village of Radium Hot Springs as at December 31, 2020 and its financial performance, cash flows and changes in net financial assets for the year then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Municipality in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Municipality's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Municipality or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Municipality's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Municipality's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Municipality to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants

Cranbrook, British Columbia

APPENDIX B: BDO RESOURCES

BDO is a leading provider of professional services to clients of all sizes in virtually all business sectors. Our team delivers a comprehensive range of assurance, accounting, tax, and advisory services, complemented by a deep industry knowledge gained from nearly 100 years of working within local communities. As part of the global BDO network, we are able to provide seamless and consistent cross-border services to clients with global needs. Commitment to knowledge and best practice sharing ensures that expertise is easily shared across our global network and common methodologies and information technology ensures efficient and effective service delivery to our clients.

TAX BULLETINS, ALERTS AND NEWSLETTERS

BDO Canada's national tax department issues a number of bulletins, alerts and newsletters relating to corporate federal, personal, commodity, transfer pricing and international tax matters.

For additional information on tax matters and links to archived tax publications, please refer to the following link: [Tax Library | BDO Canada](#)

Outlined below is a summary of certain BDO resources, which may be of interest to the Mayor and Council.

PUBLIC SECTOR ACCOUNTING STANDARDS UPDATES

The Public Sector Accounting Board has issued a number of standards, which will become effective for public sector entities over the next few years, which include:

Effective for fiscal years beginning on or after April 1, 2022 (date revised due to COVID-19)

- Asset Retirement Obligations
- Financial Instruments Narrow Scope Adjustments

Effective for fiscal years beginning on or after April 1, 2023 (date revised due to COVID-19)

- Revenue

This article elaborates on the financial reporting implications to Canadian public sector entities: <https://www.bdo.ca/en-ca/insights/assurance-accounting/psas/public-sector-accounting-standards-update-2020/>