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March 3, 2022

Village of Radium Hot Springs
PO Box 340
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Radium Hot Springs, BC
VOA 1M0

Dear Ms. Sharp, Chief Financial Officer

During the course of our audit of the consolidated financial statements ("financial statements") of Village of Radium Hot Springs for the year ended December 31, 2021, we identified matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly an audit would not usually identify all such matters.

The comments and concerns expressed herein did not have a material effect on the Municipality's financial statements and, as such, our opinion thereon was without reservation. However, in order for the Municipality to ensure the safeguarding of its assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect upon the honesty or competence of the Municipality's employees.

The matters we have identified are discussed in Appendix 1.

This communication is prepared solely for the information of management and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from your entire finance team.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Yours truly,

Mario Piroddi CPA, CA, CISA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants



Appendix 1

Asset Retirement Obligations (AROs)

The Public Sector Accounting Board has issued a new standard regarding Asset Retirement Obligations, PS 3280, that will become effective for public sector entities for fiscal years beginning on or after April 1, 2022, with earlier adoption permitted (date pushed back a year due to COVID-19).

At the latest, the new standard will impact the Village's financial statements for the year ended December 31, 2023. Without sufficient resources committed from all relevant municipal departments to the project there is a risk of not having sufficient appropriate audit evidence when the standard becomes effective.

We understand that management has made significant progress in preparing for the standard and recommend that Management continues to ensure that appropriate processes for this project are implemented across departments to ensure that all AROs are identified by the time the standard comes into effect.

Management's Comments on the Issue:

As the Chief Financial Officer, I have taken the ARO courses to understand and execute the new standard. We have gathered relevant documentation on our buildings, reviewed all our right-of-ways and agreements, resulting in no ARO's identified. As I learn more about the ARO standard I will continue to scrutinize our infrastructure.

Policy Reviews

During the course of the audit we noted that although there are numerous policies in place at the Village that there are a number of policies that are either out of date or are not specific enough to ensure that there is clear compliance with the policies. Not having an up to date policy manual can create the risk of unexpected results or losses to the Village. In particular, we noted the following policies that require immediate work:

Vacation Carryforward Policy

In reviewing the policy and some recent departures, it was noted that the past practice of how vacation entitlements are calculated could be interpreted such that an employee receives their full vacation entitlement at the start of the year and if they leave during the year, the final balance owing would not be pro-rated for the length of service in that year. This creates the risk of overpayment of vacation time during a person's final year of service with the Village.

Reserve Policy

It was noted that the Village does not have a robust policy for handling its financial reserves. Having a clear policy is important as it provides management with direction in regards to how to plan for future expenditures and to manage the tax rate increases. As we are in a high inflation environment currently, this is critically important to ensure that tax rate increases are well managed.

We recommend that there be a complete policy review performed at the Village. We further recommend that priority to the Vacation and Reserve policies be given as these are of importance.



Management's Comments on the Issue:

Upon the arrival of our new Chief Administrative Officer policy and procedure reviews will be high on the task list. Within the finance department, there are two policies that are a priority, the Reserve policy, as noted above, and the Purchasing policy.

Property Taxation Budgeting

During the course of the audit we noted that although management has a robust process for determining the property tax needs of the Village, the process does not demonstrate what the taxation requirements by service area or segment are. Not showing the taxation amounts by service area does not allow residents to see the value they are receiving for their taxes, and can create confusion as to why property tax increases are necessary.

We recommend that management begin to budget property tax requirements by service area with the goal of achieving greater transparency in the budgeting process for residents.

Management's Comments on the Issue: The finance department has been focused on advancing the asset management process. Creating a different focus on how the budget is presented is in progress starting with the 2022 financial plan. The goal is to develop a 20 year financial plan for all departments. Currently the fire department has a 20 year financial plan. The allocation of taxation requirements by service area or segment will be incorporated into the current year budget.