

Rural Municipality of Blaine Lake #434
PO Box 38
Blaine Lake, SK
S0J 0J0

Attention: Reeve and Councillors

Re: Billing for 2015 financial statement audit and additional time expended on reconciling opening general ledger balances.

Referring to a correspondence from our office dated February 16, 2016, the original quote to the Municipality for the 2015 year-end audit work was \$5,900. The quote included all travel expenses and all basic audit work and documentation required to complete a financial statement audit under Canadian Auditing Standards. As noted in that correspondence, the quote was contingent on the accounting records of the Municipality being properly reconciled. Council declined that quote.

Subsequently, as events unfolded, a revised quote was provided to the Municipality in an e-mail dated April 21, 2016. In that e-mail it was indicated that "... our fees to complete this years' financial statement audit may be as high as \$12,000 plus taxes".

As was articulated to the Council in our Management Letter dated July 8, 2016, there were several notable items for consideration:

- All of these items required us to undertake additional inquiries, acquire additional documentation and perform analysis to reconcile amounts in the current year. The additional work increased the amount of time required to complete the current year audit;
- Several of the items involved investigation of transactions and balances carried over from prior years. This is an unusual situation. It is a standard basic assumption when undertaking an audit that prior year balances that have been audited are reliable and that documentation to support those balances will be readily available. This was not the case. Instead we spent considerable time making inquiries and working with the Administrator to acquire adequate documentation to recalculate the prior year balances and to make the prior year correcting entries. This is not what we would normally consider to be current years' audit work.

Please be aware that in the course of our audit work we noted that the new Administrator, Bertha Buhler, had already undertaken many corrective actions and was rigorously organizing the Municipality's documents and records. In addition, many of the items above that resulted in extra audit work were one-time items that have now been dealt with.

We do not track time specific to tasks carried out within an audit file. However, we can provide some indication of the additional work that was associated with each of the items discussed in the Management Letter, as well as additional audit work that was undertaken that was not directly associated with the Management Letter items.

Bank Reconciliation:

The year-end bank reconciliation provided did not balance.

- Acquire bank statements re-perform reconciliation for the entire year;
- Identify and investigate discrepancy items and prepare correcting entries.

Inventory:

The client had not made an assessment/valuation of inventory balances for the prior two year ends.

- Acquire inventory count and costing information;
- Investigate purchase and use pattern for gravel inventories;
- Prepare correcting entries for year-end inventory adjustments.

Payroll Remittance Calculation and Posting:

Client payroll remittance payable accounts had large (incorrect) debit balances and EI, CPP and MEPP expenses were understated.

- Acquire CRA payroll remittance documentation;
- Recalculate remittance amounts for the year;
- Identify and investigate discrepancies and prepare correcting entries.

Inconsistent Posting of Councillor Remuneration and Travel Reimbursements:

The new Administrator had created Employee Earnings Records workbooks and had extracted information from various places in the expense accounts in order to prepare the year end T4's. However, since the amounts in question were coded inconsistently during the year, the Employee Earnings Record totals did not agree directly or reconcile to any GL account balances. In order to verify the year-end amounts the following audit work was required:

- Isolate all payments made to Councillors during the year for remuneration and travel;
- Identify amounts not posted correctly and prepare correcting entries;
- Reconcile GL account balances to the Employee Earnings Record worksheets and to the year-end T4's.

T4 Reported Amounts Did Not Agree to Amounts paid to Employees:

- Acquire employee payroll and benefits documentation used to prepare the CRA T4's and T4 Summary;
- Identify and investigate discrepancies between the GL accounts, the Employee Earnings Records and the T4's;
- Prepare correcting entries.

GST amounts paid on invoices not posted consistently:

GST amounts paid on expense reimbursements not posted:

- Identify transaction amounts not posted and prepare correcting entries;
- Calculate GST amounts implicit in travel reimbursement expenses and prepare correcting entries.

Capital Asset Listing Not Maintained:

Prior Year (2014) Capital Asset Purchase and Disposal Transactions Not Recorded Properly:

The Capital Asset Listing provided did not agree to the GL account balances. On inquiry it was determined that this situation had carried over from the prior year-end.

- Investigate and acquire all documentation and journal entries related to prior year and current year asset acquisitions and disposals;
- Inquiry and investigation to isolate discrepancy amounts between the GL and the capital asset listing;
- Re-perform prior year acquisition and disposal transactions and identify misstated amounts;
- Prepare correcting entries;
- Restate prior year financial statement balances and prepare related notes.

GST Paid on Prior Year (2013) Grader Purchase Not Recorded:

During the investigation of prior year capital asset acquisitions it was identified that the GST applicable to a capital asset purchase made two years prior had not been properly recorded for rebate.

- Investigate and acquire related documentation and year end journal entries;
- Re-perform the acquisition journal entries and identify the misstated amounts;
- Prepare correcting entries;
- Restate prior year financial statement balances and prepare related notes.

Prior Year (2014) Accounts Receivable Misstated:

We were unable to acquire an accounts receivable listing for the current year or for the prior year, and therefore, had nothing to substantiate the GL recorded amount for account receivables.

- Investigate and acquire documentation and year end journal entries for both the prior year and the current year;
- Inquiries with prior auditor;
- Identify misstatement in prior year account receivable GL balance;
- Prepare correcting entries;
- Restate prior year financial statement balances and prepare related notes;
- Identify misstatement in current year receivable GL balance;
- Prepare correcting entries.

Disaster Event Documentation and the PDAP Claims Process:

The Municipality had initiated PDAP claims related to two separate disaster events that had occurred during 2013. The Municipality had subsequently incurred substantial expenses related to mitigation and remediation work, and had received advance payment amounts from PDAP.

- Inquiries and investigation to obtain an understanding of the situation around the two disaster events and how the expenses were tracked in the GL;
- Investigate and acquire documentation related to the PDAP claims assessments for the two disaster events;
- Investigate, acquire and evaluate documentation related to payments made to the Municipality from PDAP;
- Inquiry and investigation to obtain an understanding of the status of claims submitted to PDAP for reimbursement, including discussions with PDAP representatives;
- Assessment of the contingent liability and preparation of financial statement note disclosure.

Control Environment and Related Parties:

Our initial inquiries with the various Councillors, the Administrator, the prior Auditor, and the prior Administrator revealed that the relationships amongst the Council members were strained, and that there had been ongoing acrimony for some time. There was suspicion expressed that there had been inappropriate payments made by the Municipality, some perhaps to related parties, and that the Municipal financial accounts were being manipulated.

As a result, we were required to assess the risk and to undertake additional audit procedures to obtain reasonable assurance on the financial statements. These additional audit procedures included:

- Obtain and review the Public Disclosure Statement of each Councillor;
- Investigate and verify all client journal entries made during the year;
- Review all payment transactions made by the Municipality during the year to the Administrator and each Councillor and ensure each was properly documented and authorized;
- Increase audit testing of receipts and deposits;

Prepare Management Letter:

- Preparation, review and editing.

If you have any questions or comments with respect to the above information please do not hesitate to contact our office. We look forward to working with you in the coming year.

Very truly yours,

Robert Paisley CPA CMA

**RURAL MUNICIPALITY OF BLAINE LAKE NO.
434**

Auditor's Report

Summarized Financial Statements

December 31, 2015

MANAGEMENT'S RESPONSIBILITY

To the Ratepayers of
Rural Municipality of Blaine Lake No. 434 :

Management is responsible for the preparation and presentation of the accompanying summarized financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian public sector accounting standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

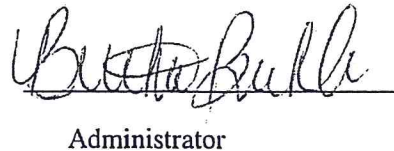
In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Council is composed of elected officials who are not employees of the Municipality. The Council is responsible for overseeing management in the performance of its financial reporting responsibilities. The Council fulfils these responsibilities by reviewing the financial information prepared by the administration and discussing relevant matters with external auditors.

Jensen Stromberg Chartered Accountants, an independent firm of Chartered Accountants, is appointed by the councilors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Council and administration to discuss their audit findings.



Reeve



Administrator

Bill Jensen, C.P.A. Prof. Corp.
Jeff Stromberg, C.P.A. Prof. Corp.

**REPORT OF THE INDEPENDENT AUDITOR ON
SUMMARIZED FINANCIAL STATEMENTS**

To the **Reeve and Council of Rural Municipality of Blaine Lake No. 434**

The accompanying summarized consolidated statements of financial position, financial activities, changes in net financial assets and changes in financial position are derived from the complete consolidated financial statements of **Rural Municipality of Blaine Lake No. 434** as at **December 31, 2015** and for the year then ended on which we expressed an opinion without reservation in our report dated July 6, 2016.

These summarized financial statements do not contain all the disclosures required by Canadian public sector accounting standards. Reading the summarized financial statements, therefore, is not a substitute for reading the audited financial statement of **Rural Municipality of Blaine Lake No. 434**.

Management's Responsibility for the Summarized Statements

Management is responsible for the preparation and fair presentation of these summarized 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 summarized financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the summarized financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, "Engagements to Report on Summary Financial Statements."

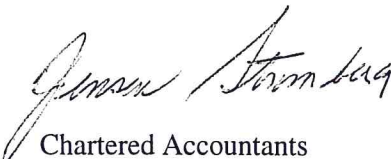
Opinion

In our opinion, the summarized financial statements derived from the audited financial statements of **Rural Municipality of Blaine Lake No. 434** for the year ended **December 31, 2015** are a fair summary of those financial statements, in accordance with Canadian public sector accounting standards.

Other Matter

The consolidated financial statements of the Rural Municipality of Blaine Lake No. 434 for the year ended December 31, 2014 were audited by another auditor who expressed an unqualified opinion on those statements dated April 7, 2015.

Saskatoon, Saskatchewan
July 6, 2016


Chartered Accountants

RURAL MUNICIPALITY OF BLAINE LAKE NO. 434

Statement 1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015
with comparative figures for 2014

	<u>2015</u>	<u>2014</u> (Restated)
<u>ASSETS</u>		
Financial assets:		
Cash and temporary investments	\$ 876,141	861,314
Taxes receivable	209,205	211,850
Other accounts receivable	166,351	118,244
Land for re-sale	-	-
Long-term investments	36,401	37,077
Other	-	-
Total financial assets	1,288,098	1,228,485
<u>LIABILITIES</u>		
Bank indebtedness	-	-
Accounts payable	154,932	325,856
Accrued liabilities payable	-	-
Deposits	-	-
Deferred Revenue	-	-
Accrued landfill costs	-	-
Other liabilities	37,691	2,800
Long-term debt	9,901	29,125
Lease obligations	-	-
Total liabilities	202,524	357,781
NET FINANCIAL ASSETS	1,085,574	870,704
Non-financial assets:		
Tangible capital assets	1,224,506	1,337,550
Prepaid and deferred charges	149	484
Stock and supplies	80,003	21,433
Total non-financial assets	1,304,658	1,359,467
NET ASSETS	\$ <u>2,390,232</u>	<u>2,230,171</u>
Accumulated Surplus		
Accumulated Surplus (Deficit)	\$ <u>2,390,232</u>	<u>2,230,171</u>

See accompanying notes to the financial statements.

RURAL MUNICIPALITY OF BLAINE LAKE NO. 434

Statement 2

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

Year ended December 31, 2015
with comparative figures for 2014

	<u>2015</u> <u>Budget</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u> <u>(Restated)</u>
Revenues:			
Taxes and other unconditional revenue	\$ 1,160,360	1,158,484	1,123,961
Fees and charges	139,590	179,012	157,352
Conditional grants	19,110	9,186	15,538
Tangible capital asset sales - gain (loss)	-	-	66,391
Land sales - gain (loss)	-	-	-
Investment income and commissions	3,770	2,413	3,993
Other revenues	-	5,002	-
Total Revenues	<u>1,322,830</u>	<u>1,354,097</u>	<u>1,367,235</u>
Expenditures:			
General government services	272,350	273,026	192,760
Protective services	37,810	40,758	35,503
Transportation services	1,272,840	854,791	873,422
Environmental and public health services	51,420	58,984	25,302
Planning and development services	-	-	-
Recreation and cultural services	21,670	18,749	10,891
Utility services	<u>3,600</u>	<u>1,890</u>	<u>2,716</u>
Total Expenditures	<u>1,659,690</u>	<u>1,248,198</u>	<u>1,140,594</u>
Surplus (deficit) of revenues over expenditures before other capital contributions	<u>(336,860)</u>	<u>105,899</u>	<u>226,641</u>
Provincial/Federal capital grants and contributions	<u>509,530</u>	<u>54,162</u>	<u>42,729</u>
Surplus (deficit) of revenues over expenditures	172,670	160,061	269,370
Accumulated surplus (deficit), beginning of year	<u>2,230,171</u>	<u>2,230,171</u>	<u>1,960,801</u>
Accumulated surplus (deficit), end of year	<u>\$ 2,402,841</u>	<u>2,390,232</u>	<u>2,230,171</u>

See accompanying notes to the financial statements.

RURAL MUNICIPALITY OF BLAINE LAKE NO. 434

Statement 3

CONSOLIDATED STATEMENT OF CHANGES IN NET FINANCIAL ASSETS

Year ended December 31, 2015
with comparative figures for 2014

	<u>2015</u> <u>Budget</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u> <u>(Restated)</u>
Surplus (deficit)	\$ <u>172,670</u>	<u>160,061</u>	<u>269,370</u>
(Acquisition) of tangible capital assets	-	-	(740,084)
Amortization of tangible capital assets	-	113,044	41,446
Proceeds on disposal of tangible capital assets	-	-	453,488
Loss (gain) on disposal of tangible capital assets	<u>-</u>	<u>-</u>	<u>(66,391)</u>
Surplus (deficit) of capital expenses over expenditures	<u>-</u>	<u>113,044</u>	<u>(311,541)</u>
(Acquisition) of supplies inventories	-	(58,570)	-
(Acquisition) of prepaid expenses	-	335	-
Consumption of supplies inventories	-	-	-
Use of prepaid expenses	<u>-</u>	<u>-</u>	<u>-</u>
Surplus (deficit) of expenses of other non-financial over expenditures	<u>-</u>	<u>(58,235)</u>	<u>-</u>
Increase (decrease) in Net Financial Assets	172,670	214,870	(42,171)
Net Financial Assets - Beginning of the year	<u>870,704</u>	<u>870,704</u>	<u>912,875</u>
Net Financial Assets - End of year	\$ <u>1,043,374</u>	<u>1,085,574</u>	<u>870,704</u>

See accompanying notes to the financial statements.

RURAL MUNICIPALITY OF BLAINE LAKE NO. 434

Statement 4

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended December 31, 2015
with comparative figures for 2014

	<u>2015</u>	<u>2014</u> (Restated)
Cash provided by (used in) the following activities:		
Operating:		
Surplus (deficit)	\$ 160,061	269,370
Amortization	113,044	41,446
Loss (gain) on disposal of tangible capital assets	<u>-</u>	<u>(66,391)</u>
	273,105	244,425
Change in assets/liabilities		
Taxes receivable - Municipal	2,644	2,009
Other accounts receivable	(48,107)	118,752
Land for re-sale	-	-
Other financial assets	-	-
Accounts and accrued liabilities payable	(250,329)	281,455
Deposits	-	-
Deferred revenue	-	-
Other liabilities	114,297	(93,389)
Stock and supplies for use	(58,569)	-
Prepayments and deferred charges	335	-
Other	<u>-</u>	<u>-</u>
Net cash from operations	<u>33,376</u>	<u>553,252</u>
Capital:		
Aquisition of capital assets	-	(740,084)
Proceeds from the disposal of capital assets	-	453,488
Other capital	<u>-</u>	<u>-</u>
Net cash used for capital	<u>-</u>	<u>(286,596)</u>
Investing:		
Long-term investments	676	(1,953)
Other investments	<u>-</u>	<u>-</u>
Net cash from (used for) investing	<u>676</u>	<u>(1,953)</u>
Financing activities:		
Long-term debt issued	-	-
Long-term debt repaid	(19,225)	(224,059)
Other financing	<u>-</u>	<u>-</u>
Net cash used for financing	<u>(19,225)</u>	<u>(224,059)</u>
Increase (decrease) in cash resources	14,827	40,644
Cash and temporary investments, beginning of year	<u>861,314</u>	<u>820,670</u>
Cash and temporary investments, end of year	<u>\$ 876,141</u>	<u>861,314</u>

See accompanying notes to the financial statements.