

Ingram & Yeadon Accountants

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Rural Municipality of Birch Hills No. 460
Box 369
Birch Hills, SK S0J 0G0

Dear Reeve and Councilors;

We are pleased to provide you this letter for the discussion of our interim audit of the financial records of the RM of Birch Hills No. 460 (the "Municipality") for the period ended August 31, 2016. In this letter we will cover those significant matters, which in our opinion, you should be aware of as members of council.

The Interim Audit

Our responsibility, as auditors of the RM of Birch Hills No. 460 is to report to the council on the fair presentation of the financial records, in accordance with public sector accounting standards. To properly conduct our audit, we designed our audit process to assess the risk of material misstatement within the financial records by examining and assessing the effectiveness of the RM of Birch Hills No. 460's controls, accounting systems and evidence to support the amounts and disclosures in the records including assessing the appropriateness of accounting principles and significant estimates made by management.

We have considered the Municipalities internal control as part of the financial records audit. This included obtaining an understanding of the internal controls relevant to our audit; evaluating the design of these controls and determining whether they have been implemented. This understanding was sufficient to allow us to identify and assess the risks of material misstatement of the financial records and to design and perform audit procedures. We have not determined whether relevant controls are operating effectively, as such our understanding of internal controls should not be relied upon for any other purposes.

Wherever possible, we relied on the effectiveness of internal controls within the reporting system in order to reduce the extent of our audit testing. Our audit procedures, consisting of separate examination of material period-end balances, key transactions and other events considered significant to the financial records were concentrated in areas where risks were identified and therefore differences were most likely to arise.

Key financial areas that were specifically tested during my visit include:

- Bank - bank reconciliations are being conducted in timely fashion, there were no unusual entries or reconciling items detected.
- Tax Roll – the tax roll was levied in accordance with the Mill Rate return and the SAMA assessment for the municipality.
- School Division Taxes – the interim statement was completed with minimal assistance, the proper amounts are being reported and remitted in a timely fashion.

- Municipal Taxes Receivable – the accounts receivable balance ties from the general ledger to the subledger. The testing conducted shows that payments are being applied properly.
- Payroll – the use of the Paymate system is working well. The need to reconcile the benefit accounts and vacation pay payable were discussed with Lois. Source deductions are being submitted on time and accurately.
- Gas Tax Agreements – Gas Tax applications and IIP reports were reviewed and discussed with Lois.

Interim Audit Results

During our interim audit we performed many of the same audit procedures as we conduct during our year-end audit. Our interim audit procedures were designed to ensure all significant account transactions were reported accurately. All significant management estimates were audited and no material differences were noted. The methodologies and processes used by management were consistent with prior years.

There were no differences identified during our interim audit, as well there were no material unadjusted differences.

Significant Items Noted During our Interim Audit

We did not detect any significant deficiencies in your internal controls or accounting treatment. However we have the following comments for your consideration:

- We support the council's decision to have the gravel piles independently measured. The purchase of gravel is a significant investment for the Municipality. The use of an independent party to measure the gravel improves the accuracy of the financial statements.
- Employee time sheets should reviewed by the employee's supervisor to ensure the hours being reported are accurate. There needs to be a level of accountability from the employee to management to council. The risk of fraud from misrepresentation of hours increases significantly without effective controls in place.
- Vacation Pay - As Lois is a salaried employee her vacation pay is not being tracked in Paymate. I suggested that she create a spreadsheet to track her days earned and days used and have a member of council approve the sheet on a regular basis.
- Gas Tax Agreements – there are currently two open IIP applications for the Municipality. I suggested to Lois that she contact the Gas Tax Program to ensure that she understands when she needs to report the final numbers and what she needs to submit.
- Budget Process – Lois and I reviewed the 2016 budget and discussed in length the accrual to cash calculation. We discussed the implementation of a spreadsheet to assist with the reconciliation. I will work with Lois this fall to establish a worksheet.

Auditor's Independence

We confirm that the management and council are independent. We also confirm that our office is independent of management and council.

Fraud and Illegal Activities

Our audit procedures were designed to form an opinion on the financial records and while these procedures might highlight possible fraudulent or illegal activities they were not designed to do so. We did not detect any fraudulent or illegal activities or material misstatements resulting from fraudulent or illegal activities during the course of our interim audit.

The matters raised in this letter from our interim audit are only those which have come to our attention arising from, or relevant to, our interim audit that we believe need to be brought to your attention. They are not a comprehensive record of all the matters arising and, in particular, we cannot be held responsible for reporting all the risks in your business or all control weaknesses. This letter has been prepared solely for your use and should not be quoted in whole or in part without our prior written consent. No responsibility to any third party is accepted as the letter has not been prepared for and is not intended for, any other purposes.

We wish to acknowledge the cooperation and support we received from Lois during our visit.

We appreciated the opportunity to work with your Municipality and we will be happy to discuss any questions you may have about our interim audit or to discuss any other matters that may be of interest to you.

Yours truly,

A handwritten signature in cursive script, appearing to read "Ingram & Yeadon".

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