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August 4, 2010

Members of Council
Village of Tahsis
977 Maquinna Drive
Tahsis, BC
V0P 1X0

Re: Audit of the Financial Statements of the Village of Tahsis
For the year ended December 31, 2009

The purpose of this report is to summarize certain aspects of the audit that we believe would be of interest to Council. This report should be read in conjunction with the financial statements and our report thereon, and it is intended solely for the use of Council and should not be distributed to external parties without our prior consent. We accept no responsibility to a third party who uses this communication.

Audit Findings

The audit was a challenge as the financial records were incomplete and records had to be reconstructed based on available information. Our audit approach in such circumstances is to audit what we know. The year-end balance sheet (assets and liabilities) can be audited because these items exist at a point in time and can be verified. As a result of this work, we know "where you were" financially at the end of the year. We also know "where you were" at the start of the year because of our prior year audit. The next step is to piece together the transactions that occurred during the year. Many of the revenues are relatively easy to audit - for example property tax revenue is determined by multiplying the tax rate by the assessed values, and grants can be confirmed with funders. On the expense side, payroll records support payments to staff and cheque disbursement and supplier files support much of the expenses. However, in piecing this all together we could not find a little over \$75,000 and have requested that you report this as an unsupported expenditure. We have qualified our audit report in this regard. The qualification means that while we believe that the other balances are fairly stated, there was \$75,000 "missing" that we can provide no opinion on. We know that it is gone, so we know the ending financial position is fairly stated, but we can find no evidence to support the validity of the various transactions that create this balancing figure.

Just to be clear, we can't give you a list of what makes up the \$75,000 because we worked backwards from the known opening and closing balances. It represents a combination of cash that may have gone missing from deposits and cash payments that were either not supported or not properly recorded.

This is a very serious situation and we have previously discussed various aspects of our findings with your CAO, acting CFO and the Mayor. We believe that both management and Council are committed to drastic improvement (and indeed have begun to make improvements subsequent to year end) but it is important that all accounting be brought up to date while being accurate and transparent. However, due to the poor state of the records in 2009 we feel that it is unlikely that sufficient evidence could be gathered to support an insurance claim for recovery or a criminal investigation. As such, we recommend that you do not focus on the past but instead put all of your energies into ensuring that the accounting systems be brought up to top grade as soon as possible.

There are a number of other audit matters that audit standards require that we discuss with you. Each of these matters is summarized briefly below. We would be pleased to discuss any of these items in more detail.

Auditors Report

We are of the opinion that the significant accounting policies, estimates and judgments made by management are reasonable in the context of the financial statements taken as a whole.

However, because of the afore-mentioned problems we have qualified our audit report in respect of the unsupported expenditures.

Fraudulent and Illegal Activities

Our audit procedures were performed for the purpose of forming an opinion on the financial statements and although they might bring possible fraudulent or illegal activities to our attention, our audit procedures were not designed to detect fraudulent or illegal activities.

Due to various factors, in early 2009 the cash receipting functions were neglected and in December 2009, it was discovered by the acting Director of Finance that over \$70,000 of cash and cheques were being stored in an insecure location. This resulted in an overwhelming amount of work for the staff to filter through. We assisted by providing some accounting staff to help with the reconstruction of the records.

After the 2010 property tax notices were sent, a property owner disputed the amounts owing to the Village for their 2009 property taxes and it was discovered that property tax monies received in August 2009 from this property owner was recorded in the cash receipting records using the at amount \$5,000 less than the amount actually received. This could have been an error or could have been a deliberate attempt at misappropriation of funds.

Overall the accounting records were too far behind and the cash control procedures too loose for fraud or misappropriation to be proven. It is our opinion that there is not sufficient documentation in existence to make it practical for further fraud investigation to be practical. As previously mentioned though, it is imperative that accounting processes and controls continue to be upgraded to a suitably strong level.

Litigation Proceedings

We have communicated with the Village's legal counsel who has indicated that they are not aware of any material claims outstanding against the Village.

Possible Aggregate Misstatements

During the audit we keep a list of differences between the financial statements and our audit findings from third parties or other sources. This list, known as "Possible Aggregate Misstatements", is totaled to ensure that the differences are not material. Should the list total become close to materiality, it is necessary to do further audit work on the differences to determine if there really is an error in the financial statements. The existence of items on our Possible Aggregate Misstatements listing is normal and does not necessarily mean that the financial statements contain errors.

There were two possible aggregate misstatements at year end that would have increased annual surplus by \$3,542.

This amount was much less than our materiality level. After considering both quantitative and qualitative factors with respect to the possible aggregate misstatement above, we agree with management that the financial statements are not materially misstated.

Disagreements with Management

There were no disagreements with management.

New Auditing Requirements

Audit Report Date and Subsequent Events

The date of an Audit Report is a key date. The auditors have responsibility for reviewing events and transactions that have occurred subsequent to the fiscal year end and up to and including the Audit Report date to ensure that any items that may have a significant effect, in a subsequent period, on the assets and liabilities or future operations of an entity are disclosed. The work that we do to ensure that we have considered such post year-end items is known as "subsequent events" work.

Canada is adopting International Audit Standards for audits of financial statements for period ending on or after December 14, 2010. This differs from Canada's adoption of International Financial Reporting Standards which will be applicable only to publicly accountable enterprises. The International Audit Standards will be applicable to audits of all entities - public, private, non-profits and government. One of the most significant differences between existing Canadian standards and the International Audit Standards that Canada will be adopting (curiously to be called "Canadian Audit Standards" or "CAS") is in the area of dating of the Audit Report.

Under existing standards, the Audit Report is dated on the last day of fieldwork - the last day that the auditors are on site at a client performing their audit testing. Under the new CAS standards the Audit Report is to be dated the day the appropriate recognized authority has asserted that they have taken responsibility for the financial statements. The "recognized authority" would generally be the Audit Committee or, if no audit committee existed, another appropriate committee such as Committee of the Whole or perhaps even full Council. In some cases, the formal approval by Committee or Council takes place weeks or even months after the end of the audit fieldwork.

One of the results of this change is that more audit work will be required which will likely involve additional correspondence with lawyers, review of minutes, discussion with management, review of post year-end disbursements, and potentially an additional in field visit by the auditors. The extra work required can be minimized by ensuring that financial statements are approved by Audit Committee and/or Council as close to the audit fieldwork times as is possible. The shorter the time period between audit fieldwork and financial statement finalization, the less additional subsequent events testing required.

This new audit standard comes into effect with the audit of the 2010 fiscal year. We recommend you start considering how this may affect the timing of audit fieldwork and review and approval of the financial statements by Council. Any changes that can be made to streamline the process will be beneficial and will reduce additional audit costs. Although we always attempt to match our audit fieldwork timing to client desires, we do operate on a "first-come first-serve" basis when there are conflicts. So the sooner you can advise us of your preferred schedule for the 2010 audit, the more likely it will be that we can exactly match your preferences.

Auditor Independence

Canadian generally accepted auditing standards (GAAS) require us to communicate to the Council, at least annually, all relationships between BDO Canada LLP and Village of Tahsis (and its related entities), that, in our professional judgment, may reasonably be thought to bear on our independence for the audit of the Municipality.

In determining which relationships to report, we have considered the applicable legislation and relevant rules of professional conduct and related interpretations prescribed by the appropriate provincial institute covering such matters as the following:

- holding of a financial interest, either directly or indirectly in a client;
- holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- economic dependence on a client; and
- provision of services in addition to the external audit engagement.

We are not aware of any relationships between the Village and us that, in our professional judgment, may reasonably be thought to bear on our independence to date.

GAAS requires that we confirm our independence to Council. Accordingly, we hereby confirm that we are independent with respect to the Village of Tahsis within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of BC as of July 22, 2010.

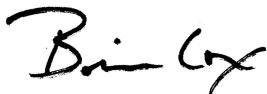
Management Letter

We found several weaknesses in the Village's control processes and procedures. As an appendix to this letter we include a draft of our management letter discussing a few critical matters for consideration as well as a few non-critical matters.

We wish to express our appreciation for the co-operation we received during the audit from Elsie Horvath, Cammy Choquette and April Roth. We would be pleased to discuss with you any matters mentioned in this letter, as well as any other matters that may be of interest to you.

Yours truly,

BDO CANADA LLP
Chartered Accountants



Bill Cox, CA
On behalf of Bill Cox, Inc.
Corporate Partner of BDO CANADA LLP

BC/mkn

APPENDIX - AUDITORS' MANAGEMENT LETTER



Direct Line: (604) 443-4716
E-mail: bcox@bdo.ca

August 4, 2010

Village of Tahsis
977 Maquinna Drive
Tahsis, BC
V0P 1X0

Attention: Ms. Harmony Nielsen, Corporate Officer

RE: Village of Tahsis

An important "value-added" benefit from a financial statement audit is the auditor's management letter. While the focus of the audit is on the testing of systems and transactions in order to be able to provide an opinion on the financial statements, a by-product of this work is points that come to our attention where we would have recommendation for consideration of change.

As has been discussed with you, the state of the accounting records and controls deteriorated substantially in 2009. Incomplete conversion to a new accounting system, lack of timely reconciliations, and reduced availability of finance staff were all contributing factors. Having said that, since our initial audit visit early in the year, the Village has been working to get the records back into good shape.

Current year management letter points

1. Cash Receipts, Deposits and Bank reconciliations

In early 2009 cash depositing and recording began to fall behind. During the latter half of 2009 the cash receipting duties also become significantly behind. Also troubling was an apparent lack of consistent outlook and issue prioritization between Finance and other operational areas.

As a result of these functions not being performed, the records were incomplete for the latter half of the year and bank reconciliations could not be completed. Reconstructing the records by Village staff proved to be too time consuming in addition to their current duties so the record-keeping continued to slide and outside assistance was eventually required. Even after the records were constructed as well as could be there remained an unaccounted for difference of over \$75,000. This resulted in an audit qualification which is quite rare in local government.

Recording cash receipts, making deposits as well as preparing monthly bank reconciliations are crucial accounting functions in all organizations in order to produce accurate financial reports. Neglecting these duties significantly increases the risk of misappropriation of funds when these procedures are not being performed and, as evidenced by the audit of the 2009 year, increases costs substantially.

We recommend that all cash receipts and deposits are performed on a monthly basis and that the bank reconciliations are performed monthly by someone with no cash receipting or payment duties. These bank reconciliations should be reviewed by management and Council monthly.

2. Review of Budget and Financial Information is by Council

We noted that no budget or other financial information is presented to Council on a regular basis. This increases the risk that Council is implementing directives that have not been factored into the budget. This, of course, increases the risk of liability the Village could face if it expends funds not included in the financial plan. Overall communication of financial plans and financial status must be improved.

As an example, subsequent to year end, it was noted that the funds from the "Pillage the Village" music festival were not budgeted for in the 2010 financial plan. From discussions with the Corporate Officer, the expenses for the music festival were to be funded from the dividends received from the Nootka Sound Economic Development Corporation, which were received in 2009. However, this was not communicated to the Finance Officer. As these expenses were not included in the original 2010 financial plan, it increases the risk of the Village since monies are being expended which have not been included in the original 2010 financial plan.

Therefore, we recommend that regular financial reports be presented to Council to match their initiatives to the amount of funds available in order facilitate better decision making. (We note that Council has requested such reporting yet did not receive it. Therefore, this must be made a high priority and one that will impact the performance review of the Finance Officer of the day.) Also, we recommend that the 2010-2014 Financial Plan be amended to account for the additional expenditures for the "Pillage the Village" music festival.

3. Cheque Signing

At the Mayor's request we expanded our review the cheque preparation and signing process - particularly with a slant towards conflict of interest situations. In performing this task we noted that there were instances where the payee was also one of the signatories on the cheque. There were also instances where the payee was a signatory's family member or related business. This poses a conflict of interest risk when a signatory has the ability to sign their own cheques or cheques to family members or related businesses.

We recommend that the policy be developed specifically to provide guidelines for such situations. Ideally, a signatory should not be signing cheques for which a family member's business is the payee, family member is the payee or is himself/herself the payee - although we recognize this may not be practical in all situations. It is particularly important in regard to large and/or unusual transactions. Good policy in this area that is consistently followed will also mitigate the opportunity for misappropriation of funds and conflicts of interest.

4. Accurate Council Meeting Minutes

During the audit, we noted instances where minutes were not approved by all Council and the Mayor. This may give the appearance that the Council minutes are not entirely accurate and deviates from best practice.

We recommend that the minutes be approved by all attendees after any necessary corrections are agreed to.

5. Timesheet Approval

During our walkthrough of the accounting systems, we noted that the hours on timesheets were not totaled correctly. This increases the risk that the employee is banking hours which they have not worked and therefore the Village is paying for banked hours which have not incurred.

We recommend that all timesheets are recalculated by the person who is approving the timesheet and that standard timesheets are used for each pay period.

6. Subledgers and General Ledgers

During our audit, we noted that the accounts receivable and taxes receivable subledgers did not agree to the general ledger. This increases the risk of inaccurate receivable reports, thereby increasing the risk that amounts will not be collected. Further, if the accuracy of the tax subledgers are questioned there is a risk that the property cannot be put up for tax sale if it remains delinquent.

We recommend that the general ledgers and subledgers be reconciled monthly by finance staff and reviewed by the Finance Officer.

7. Self-assessment of GST/HST

We noted during our audit that the Village did not self assess GST on the land purchased during the year. This increases the exposure to the Village if CRA audits the Village's GST claims and it is determined that the Village must pay the GST on the purchase of the land. However, the Village can also claim a rebate on the GST paid, therefore resulting in a 'wash'. The only exposure if no self assessment is made is a "wash penalty" and interest due to the timing difference.

We recommend that the Village self assess GST on the land purchased in 2009 to minimize the exposure of interest charged by CRA. For future real property transactions it is important that your lawyers and/or ourselves be contacted to ensure that HST is properly reported.

8. User ID for MAIS accounting system

We noted that staff who were no longer responsible for accounting functions still had valid user ID's. This increases the risk of unauthorized changes to accounting information which may lead to problems which are difficult to trace. Further, we are advised that it was common practice for a single user's ID to be used for any of the staff accessing the system.

We recommend that each current user have their own separate user ID's to ensure that any transactions can be traced to the correct person initiating the transactions and to ensure a proper audit trail.

Prior year management letter points

1. Duties of Current Council and Municipal Staff

We commented last year that there were a significant number of municipal operational issues that were no longer being addressed due to the dismissal of the Chief Administrative Officer. Coordination of work for the municipal staff had been altered as they no longer have a direct supervisor. In some cases staff were being informed of their duties directly from various Council members and the Mayor which made prioritizing work difficult. We felt that this increased the risk that the resources available to the Village were not being used in the most effective and efficient manner.

We recommended that Council and Mayor remain at an arm's length when dealing with the day-to-day operations of the Village and that Council's function is to provide guidance to staff, not to perform the job functions of the Municipal staff.

Current year update:

The change/search for a Finance Officer has further hampered the efficiency and effectiveness of financial controls as well as decreasing the effective communication of directives between mayor and council and the management team for 2009. We continue to recommend that a solid management team be put into place that includes an experienced Finance Officer.

2. Conflicts of Interest

We noted during review of minutes last year that personal matters of the Mayor and the Council were being discussed during the meetings. The members of Council and the Mayor should remain, in appearance, and in fact, at arm's length regarding business with the Village. If a conflict of interest should arise between the role of a Council member and the member themselves, they should excuse themselves from the discussions in order for the public to perceive the Council to be working in the best interests of the Village.

Current year update:

We recommend that the Village develop a formal tendering policy as this will allow the Mayor and Council to approve the proposal of a company for a task but allow for independent review by staff to ensure that they are most appropriate for the work. In all cases, any potential conflicts should be immediately noted and disclosed by the Mayor or Council person involved.

3. Severance Pay Liability

The Village had incurred a contingent liability relating to the severance due to the dismissal of the Chief Administrative Officer. We recommended that employment contracts be structured to minimize any open-ended severance.

Current year update:

We have noted that there has been no follow-up of conditions set out in the employment contract. We continue to recommend that regular follow-up of the conditions of the employment contract in order to minimize the severance payments.

4. Credit Checks of Lessees

During the year, it was noted that there was a significant receivable balance from a former lessee resulting from the outstanding lease payment. It has been noted that in the past the Village has had difficulties in collecting lease payments from former tenants. The risk is that the Village is not able to collect monies that are due to them as the tenant's ability to pay has not been investigated prior to signing of the lease. In order to mitigate the risk that the tenants not paying, the potential tenants should have appropriate credit checks to ensure that they are a viable.

Current year update:

We have noted that there are no credit checks or review of the tenants' business plan in 2009. We continue to recommend that the Village obtain this information to ensure that rent charged to the tenants can be collected.

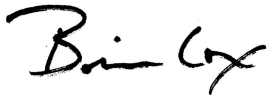
This communication is prepared solely for the information of management and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the cooperation and assistance which we received during from staff during our audit.

Please do not hesitate to contact us should you wish to further discuss any of the matters included in this letter.

Yours truly,

BDO CANADA LLP
Chartered Accountants



Bill Cox, CA
On behalf of Bill Cox, Inc.
Corporate Partner of BDO CANADA LLP

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