Village of Cremona

Report to Village Council

For the Year-end December 31, 2014

As presented on April 21, 2015

Collins Barrow

Chartered Accountants

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1. Introduction

This report is presented to assist members of the Village Council in reviewing the audit of the financial statements of Village of Cremona for the year ended 2014.

Our report is prepared in accordance with the recommendations of the Canadian Auditing Standards (CAS) Handbook section 260, *Communications with Those Charged with Governance*. It summarizes our significant findings arising from the audit and other matters that we believe should be brought to your attention. The audit would not necessarily identify all matters that may be of interest to the Council in fulfilling its responsibilities.

This report is intended solely for the use of the Village Council and management of the Village of Cremona.

2. Audit Engagement

Our responsibilities include expressing an opinion on the annual financial statements of Village of Cremona and to assist the Village in their continuing efforts to improve accountability, reporting, and operational and accounting controls and procedures.

We have completed the audit of the financial statements of Village of Cremona for the year ended 2014. The following is a review of the results of the audit, including a review of the scope of the audit and significant accounting and reporting matters.

3. Interpretation of Auditor's Report

In accordance with the terms of our engagement, we are required to audit the financial statements of the Village and report in writing whether the financial statements "present fairly" in all material respects the results of its operations for the year ended 2014 in accordance with Canadian Public Sector Accounting Standards. The accounting principals of the Village are outlined in Note 1, Significant Accounting Policies, to the notes to the audited financial statements. These policies are in accordance with Canadian Public Sector Accounting Standards and to the best of our knowledge, relevant statutory requirements.

We have signed an unmodified auditor's report, with the date of April 21, 2015 on the financial statements of the Village. The auditor's report will be issued with the financial statements and presented to the Council.

4. Scope of Our Examination

The presentation of the financial statements of the Village and accompanying notes are the responsibility of management. Our responsibility is to express an opinion on these financial statements, taken as a whole, based upon the results of the audit.

As auditors, we report on the fairness of the financial statements taken as a whole. An audit is performed to obtain reasonable, but not absolute assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Accordingly, as auditors, we report on fairness and developed a scope of examination sufficient to enable the expression of an opinion on the "fairness" of the financial statements. We established a materiality limit and use this together with our evaluation of internal control to determine the nature, extent and timing of the procedures used during our examination. The materiality limit was established in accordance with Canadian Auditing Standards.

An item is considered material, or the accumulated effects of individual items are considered material, if their omission, inclusion or misstatement would influence or change a decision of the informed reader and user of the financial statements. Materiality is a matter of professional judgment in the particular circumstances.

Canadian Auditing Standards provide that:

a) a sufficient understanding of internal control be obtained, and sufficient appropriate audit evidence be gathered, to support our assessment of control risk;
b) the work of persons performing the audit be reviewed and that audit personnel are technically competent;
c) the work is planned and properly executed;
d) sufficient, appropriate audit evidence is obtained; and
e) adequate disclosures are made in the financial statements.

The audit included:

a) assessing the risk that the financial statements may contain material misstatements;
b) examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
c) assessing the accounting principles and their applications;
d) assessing the significant estimates made by management.

5. Review of Internal Controls

It is management's responsibility to design and maintain an appropriate system of internal controls to ensure that the accounting records are reliable and to safeguard the Village's assets.

A review of the systems of internal control was completed and evaluated to obtain sufficient understanding of the internal control environment. Specific tests were performed to the extent considered necessary by us to obtain sufficient appropriate audit evidence. Based upon these reviews, we identified the specific controls upon which we intended to rely.

Generally, our review did not disclose internal control matters that require us to revise our audit plan as to the nature, extent and timing of our audit procedures, that required recommendations for adjustment to the financial statements or that would require comment in our auditors' report.

6. Materiality and Uncorrected Misstatements

Materiality

Materiality is based on the fact that some matters, either individually or in the aggregate, are important if the financial statements are to be presented fairly in accordance with Canadian Public Sector Accounting Standards. A misstatement is material if it is considered probable that it would influence a financial statement user's decision making.

The overall materiality for the 2014 audit of the financial statements is $25,000 and performance materiality is $20,000.

Uncorrected Misstatements

In the course of our audit, we have aggregated uncorrected financial statement misstatements which are summarized in the Appendix B. Management has deemed the effects of these misstatements to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

7. Summary of Qualitative Aspects of Accounting Practices

Management is responsible for the appropriate selection and application of accounting policies and for proper financial statement disclosures under Canadian Public Sector Accounting Standards. Management is also responsible for the accounting estimates included in the financial statements. Estimates and the related judgments are based on management's knowledge of the organization and past experience.

Our role is to review the appropriateness and application of these policies, disclosures and estimates as part of our audit. Significant accounting policies, disclosures and accounting estimates are appropriately disclosed in the notes to the financial statements.

8. Statutory Requirements

Based upon the results of our audit, we have no reason to believe that the Village has not complied with applicable legislation and regulations.

9. Management Representations

We have received the management representations that we require allowing us to express an opinion on the financial statements.

10. Illegal Acts, Fraud, Intentional Misstatements and Errors

Our auditing procedures, including tests of your accounting records, were limited to those considered necessary in the circumstances and will not necessarily disclose all illegal acts should any exist. Under generally accepted auditing standards, we consider the organization's control environment, governance structure, circumstances encountered during the audit and the potential likelihood of fraud and illegal acts occurring.

These procedures are not designed to test for fraudulent or illegal acts, nor will they necessarily detect such acts or recognize them as such, even if the effect on the financial statements is material. However, should we become aware that an illegal or possibly illegal act or act of fraud may have occurred, other than one considered clearly inconsequential, we will communicate directly to the Council of Directors.

It is management's responsibility to detect and prevent illegal action. If such acts are discovered or the Village Councilmembers become aware of circumstances under which the organization may have been involved in fraudulent, illegal or regulatory non-compliance situations, such circumstances must be disclosed to us.

Testing during our audit did not reveal any illegal, improper or questionable payments or acts, nor any acts committed with the intent to deceive, involving either misappropriation of assets or misrepresentation of assets or misrepresentation of financial information.

11. Disagreements with Management

We discussed with management the treatment of items recorded as deferred revenue and agreed to not change the current year presentation but to consider changing the presentation in future financial statements. (See Recognition of Grant Revenue in the appendix.) We had no other disagreements about the accounting policies, presentation or disclosures in the financial statements.

12. Results of the Audit

Observations and recommendations arising from the audit are included in Appendix A.

13. Co-operation of Management

The full co-operation of management and staff was received during the course of our work.

14. Related Party Transactions

We are not aware of any related party transactions that were not in the normal course of operations or involve significant judgments by management concerning the measurement or disclosure.

15. Acknowledgment

We wish to express our appreciation for the co-operation that we received and the courtesies that were extended to us during the audit. Information was provided to us was well organized.

Appendix A

Results of the Audit

1. Matters for Discussion

Prior year matters:

Approval of Hours Worked

Due to the small size of the Village and the fact that the CAO is not present in the community it is difficult to assess the hours worked by the staff of the Village. It is the responsibility of the Village's employees to properly track and submit their hours of work. This increases the risk that those hours can be misrepresented and could result in employees being over paid. The Village needs to consider ways to assess the hours being worked or the outcomes achieved by the time spent. The Village may also want to consider switching to a salary rather than hourly pay with a bonus system if extra time and effort is required.

We continue to recommend the Village consider ways to improve the oversight of the hours worked by staff.

Recognition of Grant Revenue

In 2013 there were costs incurred for designing the lagoon expansion. The Village had received funding specifically for these costs. Accounting standards require that the funding be recognized in revenue once the related costs are incurred. During the 2014 audit we questioned the deferral of several of the grants as deferred revenue. There is a requirement that these grants be repaid if not used for the intended purpose. However, the Village can request that the scope or nature of the project be changed in order to utilize the funding received. It is highly unlikely that the amounts currently recognized as deferred revenue will ever be repaid.

Section 3410 dealing with Government Transfers in the Canadian Public Sector Accounting Handbook provides guidance as to when revenue is to be recognized.

Government transfers must have restrictions that require repayment of the funds if they are not used for the purposes the funds were advanced for. The Village is required to recognize revenue when no restrictions are placed on the funding and can only recognize a liability if there are specific requirements that have to be met in order to retain the funds. If the Village has discretion to change the scope or nature of projects to utilize the funding then the funding must be recognized as revenue when received.

We continue to recommend management review Canadian Pubic Sector Accounting Handbook Section 3410 and ensure it is applied to future Government Transfers.

2. Current year matters

Upcoming Accounting Pronouncements

The Public Sector Accounting Board (PSAB) has issued accounting pronouncements that the Village will be required to implement in accordance with the applicable transition provisions. We have provided a summary of these provisions below:

Section	Description	Effective Date (YE Beginning After)	Year Adopted by Village
PS1201	Financial Statement Presentation	April 1, 2016	December 31, 2017
PS2601	Foreign Currency Translation	April 1, 2016	December 31, 2017
PS3450	Financial Instruments	April 1, 2016	December 31, 2017

As the Village approaches the effective dates of these applicable sections, we remind management to consider the implication of adoption of these sections. We are willing to assist management and Council in interpreting and making recommendations for the implementation of each of these sections.

Appendix B

Schedule of Likely Aggregate Misstatements (SLAM)

Schedule of Uncorrected Misstatements

Description of Possible Misstatement	Proposed Adjustment – Dr. (Cr.)				
	Income Statement		Balance Sheet		
	Identified Misstatement	Likely Aggregate Misstatement	Assets	Liabilities	Equity
Amortization understated	2,938	2,938	(2,938)		
Wage accrual overstated	(4,097)	(4,097)	-	4,097	-
Total	(1,159)	(1,159)	(2,938)	4,097	-
Aggregate of likely misstatements	(1,159)	(1,159)	(2.938)	4,097	-
Final overall materiality	25,000	25,000	25,000	25,000	25,000
Amount remaining for further misstatement	23,841	23,841	22,062	20,903	25,000

Village of Cremona

Year End: December 31, 2014 — **Prepared by** — **Reviewed by** — **Reviewed by** — 22

Adjusting journal entries

Date: 1/1/2014 To 12/31/2014 — WM — GDS

3/17/2015 — 4/11/2015

Number	Date	Name	Account No	Debit	Credit
1	12/31/2014	ACC REC-PROVINCIAL	5.3.1.2.0.0.000.00.210		-207,006.00
1	12/31/2014	DEF REV-MSI CAPITAL	5.4.2.2.0.0.000.00.637	207,006.00	
		DO NOT POST - To adjust accounts receivable and deferred revenue.			
2	12/31/2014	PROV GRANTS-CONDITIONAL	5.1.0.0.0.0.202.00.940		-25,000.00
2	12/31/2014	FINANCE/EXTERNAL CONSULT	5.2.0.0.0.0.204.00.239	25,000.00	
		To recognize adjust collaboration grant.			
3	12/31/2014	MULTIPLE ASSET ACCOUNTS	5.3.3.3.0.0.000.00.XXX	150,572.15	
3	12/31/2014	CONSTRUCTION IN PROGRESS	5.3.3.3.0.0.000.00.870		150,572.15
		To classify assets and adjust amortization.			