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December 15, 2020

THE MAYOR AND COUNCIL
Village of Rycroft
P.O. Box 360
4703 – 51 Street
Rycroft, Alberta T0H 3A0

Audit of the consolidated financial statements of the Village of Rycroft for the year ended December 31, 2020

The purpose of this report is to communicate to the Mayor and Council certain aspects of the audit that we believe would be of interest to you. The Mayor and Council can play an important part in the audit planning process and we look forward to discussing our proposed plan with you to determine whether there are additional areas of concern to the Mayor and Council, which we should consider.

This report should not be distributed without our prior consent. We accept no responsibility to a third party who uses this communication.

Independence

At the core of the provision of external audit services is the concept of independence. Canadian Auditing Standards, require us to communicate to the Mayor and Council, at least annually, all relationships between our firm and the Village of Rycroft that, in our professional judgement, may reasonably be thought to bear on our independence for the forthcoming audit of the Village.

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.

Our annual letter confirming our independence up to the date of this letter is enclosed as Appendix A.

Responsibilities of the Auditor

It is important for the Mayor and Council to understand the responsibilities that rest with the Village and its management and those that belong to the auditor:

Management is responsible for the preparation of the consolidated financial statements, which includes responsibilities related to internal control, such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting error and fraud;

The auditor's responsibility is to express an opinion on the consolidated financial statements based on an audit thereof.

An audit is performed to obtain reasonable, but not absolute, assurance as to whether the consolidated financial statements are free of material misstatement and, owing to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the consolidated financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed;

- The audit includes:

  (i) assessing the risk that the consolidated financial statements may contain misstatements that, individually or in the aggregate, are material to the consolidated financial statements taken as a whole;
  (ii) examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
  (iii) assessing the accounting principles used and their application; and
  (iv) assessing the significant estimates made by management;

- A sufficient understanding of internal control will be obtained to plan the audit and, when control risk is assessed below maximum, sufficient appropriate audit evidence will be obtained through tests of controls to support the assessment, but the scope of the auditor's review of internal controls will be insufficient to express an opinion as to the effectiveness or efficiency of the organization's controls; and

- The auditor will express an opinion as to whether the consolidated financial statements present fairly in all material respects, in accordance with Canadian public sector accounting standards, the financial position, results of operations and cash flows of the organization.

Audit Approach

We have been engaged to perform the audit of the consolidated financial statements of the Village of Rycroft for the year ended December 31, 2020. We will adopt an audit approach that allows us to issue an audit opinion on the consolidated financial statements of the Village in the most cost-effective manner, while still obtaining the assurance necessary to support our audit opinion.

Our firm follows a risk-based approach. This approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the consolidated financial statements to an appropriately low level. This means that we focus our audit effort in areas that we believe have a higher risk of being materially misstated and do less audit work in areas that are only low risk.

To assess risk accurately, we need to have a clear understanding of the Village's business and the environment it operates in. Much of our understanding is obtained through discussions with management and their staff. We would appreciate any insights that you could provide to us on what you perceive to be risky in your Village, as that will make our audit more effective and efficient, which will benefit all concerned.

The following sections provide more detail on our audit approach for the Village of Rycroft for the current year.

Audit Scope

We anticipate the scope of our audit of the consolidated financial statements of the Village of Rycroft for the year ended December 31, 2020 to include the following:

- an audit opinion on the Village's consolidated financial statements
- an audit opinion on the Village's municipal financial information return.

Requests by the Mayor and Council

In the course of your duties as the Mayor and Council, you may be aware of additional areas of concern from an audit perspective that you would like us to address. We want you to know that we welcome discussion on any areas of audit concern that you may have.

Overall Audit Strategy

The general audit strategies available to us are a "combined" audit approach or a "substantive" audit approach.

In a combined audit approach, we would obtain our assurance from a combination of tests of controls (compliance procedures) and substantive procedures (such as analysis of data and obtaining direct evidence as to the validity of the items). The combined strategy is more appropriate when there are a large number of transactions, and, when controls in the Village of Rycroft are strong. By obtaining some of our assurance from the tests of controls, we can reduce the substantive procedures that need to be done. Under a substantive audit approach, all of our audit evidence is obtained through substantive procedures like analysis, confirmation, examination of documentary or electronic evidence, etc.

Based on our knowledge and experience with your Village, we anticipate using mainly a substantive approach. Our preliminary knowledge of the Village's internal control environment and procedures indicate that tests of controls should prove efficient for us to obtain a portion of our audit evidence, with the balance of the required assurance coming from reduced substantive procedures.

Higher Risk Financial Statement Areas

Based on our knowledge of the Village's business, our past experience, and knowledge gained from management and you, we have not identified any consolidated financial statements areas as having a potentially higher risk of material misstatement.

Materiality

Materiality can be defined as follows:

"*A misstatement or, the aggregate of all misstatements in consolidated financial statements is considered to be material, if, in the light of surrounding circumstances, it is probable that the decision of a person who is relying on the consolidated financial statements, and who has a reasonable knowledge of business and economic activities (the user), would be changed or influenced by such misstatement or the aggregate of all misstatements. Ultimately, therefore, materiality decisions are based on professional judgement."*

Materiality in an audit is used as a guide for planning the nature and extent of audit procedures and for assessing the sufficiency of audit evidence gathered. It is also used in evaluating the misstatements found and determining the appropriate audit opinion to express.

Since the determination of materiality is a matter of professional judgement, it is primarily dependent on our evaluation of the relative importance of accuracy in the consolidated financial statements to the various users of those statements. We have identified government authorities, councilors, employees and the community at large as the most important users of the Village's consolidated financial statements.

Canadian Auditing Standards require the use of both quantitative and qualitative factors in determining materiality. For the audit of the Village of Rycroft for the year ended December 31, 2020, we have concluded that a materiality level of $37,000 is appropriate for the purposes of planning the audit.

Audit Team

In order to ensure effective communication between the Mayor and Council and our firm, we briefly outline below the key members of our audit team.

Allen Lee
Gary Ho

Timing of the Audit

We anticipate the following schedule for the conduct of the audit:

• Interim audit fieldwork	• January 2021
• Year-end audit fieldwork	• February 2021
• Draft consolidated financial statements	• Mid to end of March 2021
• Finalization of consolidated financial statements	• April 2021
• Finalization of Financial Information Return	• April 2021

Audit Fees

As part of our audit, we understand that you expect us to provide value and to share in your commitment to minimizing costs.

We anticipate that the fees for the audit of the consolidated financial statements of the Village of Rycroft will be $24,500 plus GST and any out of pocket expenditures.

The above fee estimate is based on the assumption that the Village will provide all the necessary supporting working papers and full consolidated financial statements, that minimal adjusting journal entries will be required and that the nature of operations remains consistent with the information provided to us to date.

Should the completion of our engagement take less time than we have estimated, the savings will be passed on to the Village. We will continue to work with the Village of Rycroft to control costs.

Communication of Results

At the completion of our audit, just prior to issuing our Auditors' Report, or earlier if considered necessary, we will communicate to you matters arising from the financial statement audit. Our communication will include the following:

- matters required to be communicated to the Mayor and Council under Canadian Auditing Standards including possible fraudulent activities, possible illegal acts, significant weaknesses in internal control and certain related party transactions;
- matters that have a significant effect on the qualitative aspects of accounting principles used in the Village of Rycroft's financial reporting;
- other matters arising from the audit that, in our professional judgement, are important and relevant to the Mayor and Council, and
- matters previously agreed with you to be communicated to the Mayor and Council.

Conclusion

We look forward to discussing these issues with you. Please do not hesitate to contact us about any of the above items or other matters of concern to the Village Council.

Yours truly,

DOYLE & COMPANY

Allen Lee, CPA, CMA
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