



Beaver County Report to Council

For the Year Ending December 31, 2018
For presentation at the Council meeting April 17, 2019



April 17, 2019

Members of Council of Beaver County

Dear Gentlemen:

We are pleased to submit to you this report for discussion of our audit of the consolidated financial statements of Beaver County (the "County") as at December 31, 2018 and for the year then ended. In this report we cover those significant matters which, in our opinion, you should be aware of as members of Council.

We have completed our audit of the consolidated financial statements of the County which has been carried out in accordance with Canadian generally accepted auditing standards.

Unless unforeseen complications arise, our Audit Report will provide an unqualified opinion to the Reeve and Council of the County.

This report is intended solely for the information and use of Council and management and should not be distributed to or used by any other parties than these specified parties.

The matters raised in this and other reports that will flow from the audit are only those which have come to our attention arising from or relevant to our 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 risks in your business or all control weaknesses. This report 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 report has not been prepared for, and is not intended for, any other purpose.

We would like to express our appreciation for the excellent cooperation we have received from management and employees with whom we worked.

We appreciate having the opportunity to meet with you and to respond to any questions you may have about our audit, and to discuss any other matters that may be of interest to you.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP".

Chartered Professional Accountants

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INTRODUCTION

As auditors, we report to the Reeve and Council on the results of our examination of the consolidated financial statements of Beaver County (the "County") as at and for the year ended December 31, 2018. The purpose of this Audit Findings Report is to assist you, as members of Council, in your review of the results of our audit. To facilitate in your understanding of our findings, Appendix A to this report summarizes our audit process.

Our report will discuss the status of our engagement, as well as communicate to you significant audit, accounting and reporting matters arising from our procedures. We hope that this report is of assistance to you, and we look forward to discussing our findings and answering your questions.

ENGAGEMENT STATUS

We have completed our audit of the consolidated financial statements of the County and are prepared to sign our Auditors' Report subsequent to completion of the following procedures:

- Receipt of the signed management representation letter;
- Discussion of subsequent events with Council;
- The Council's review and approval of the consolidated financial statements.

We expect to have the above procedures completed and to release our Audit Report on April 17, 2019. Our draft report will provide an unqualified opinion.

SIGNIFICANT AUDIT, ACCOUNTING AND REPORTING MATTERS

CHANGES FROM AUDIT SERVICE PLAN

We previously presented our proposed Audit Service Plan to you on January 2, 2019. Over the course of our audit, the following deviations were made from this plan:

- Materiality was initially proposed at \$655,000 for purposes of audit planning. Upon receipt of final balances for the year ended December 31, 2018, materiality was increased to \$810,000.

AREAS OF AUDIT EMPHASIS

The following lists the key areas of our audit emphasis for your County:

- Deferred revenue - contributions received are subject to restrictions imposed by the contributors and can only be recognized when expenditures related to the restricted use have been incurred. We traced to supporting documentation to ensure that revenue items were properly recorded and that deferred revenue was complete;
- Tangible capital assets - there are significant transactions involved in TCA's. We vouched significant additions and disposals for the year and tested appropriate expense accounts to ensure that classification between expense and capital was correct; and
- Gravel inventory - there are significant management estimates regarding gravel inventory and reclamation. We used engineering reports to verify gravel quantity and inputs for estimate of reclamation liability.

FINAL MATERIALITY

Materiality is a concept used to assess the significance of misstatements or omissions that are identified during the audit and is used to determine the level of audit testing that is carried out. The scope of our audit work is tailored to reflect the relative size of operations of the County, and is affected by our assessment of materiality and audit risk.

Final materiality used for our audit was \$810,000 for December 31, 2018.

SIGNIFICANT DEFICIENCIES IN INTERNAL CONTROL

Our audit process focuses on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment allows us to concentrate our audit procedures on high risk areas and, where possible, place reliance on controls within the financial reporting system to reduce the extent of our testing.

It is important to note that our assessment was not, nor was it intended to be, sufficient to comment or conclude on the sufficiency of internal controls.

We are required under Canadian generally accepted auditing standards to communicate all significant deficiencies identified during an audit to Council on a timely basis. However, we may not be aware of all significant deficiencies that do, in fact, exist.

While our review of controls was not sufficient to express an opinion as to their effectiveness or efficiency, no significant deficiencies in internal control have come to our attention.

DIFFICULTIES ENCOUNTERED

No significant limitations were placed on the scope or timing of our audit.

IDENTIFIED OR SUSPECTED FRAUD

Due to the inherent limitations of an audit and the nature of fraud, including attempts at concealment through forgery or collusion, an audit conducted in accordance with Canadian generally accepted auditing standards cannot be relied upon to detect fraud.

While our audit cannot be relied upon to detect all instances of fraud, no incidents of fraud, or suspected fraud, came to our attention in the course of our audit.

IDENTIFIED OR SUSPECTED NON-COMPLIANCE WITH LAWS AND REGULATIONS

Nothing has come to our attention that would suggest any non-compliance with laws and regulations that would have a material effect on the consolidated financial statements.

GOING CONCERN

We have not identified any material uncertainties related to events or conditions that may cast significant doubt on the County's ability to continue as a going concern.

We are of the opinion that the going concern assumption is appropriate in preparation of the consolidated financial statements.

AUDITOR'S VIEWS OF SIGNIFICANT ACCOUNTING PRACTICES

The application of Canadian public sector accounting standards allows and requires the County to make accounting estimates and judgments regarding accounting policies and financial statement disclosures.

As auditors, we are uniquely positioned to provide open and objective feedback regarding your County's accounting practices, and have noted the following items during the course of our audit that we wish to bring to your attention.

Accounting Policies

- The accounting policies used by the County are appropriate and have been consistently applied.
- We noted the following newly adopted, and changes in, accounting policies:
 - Effective January 1, 2018, the County adopted the recommendations relating to the following Sections, as set out in the CPA Canada Public Sector Accounting Handbook: PS 3201 Assets, PS 3320 Contingent Assets, PS 3380 Contractual Rights, PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions.

Accounting Estimates

The preparation of the consolidated financial statements is subject to significant accounting estimates made by management. All significant management estimates were reviewed for the current period and no material differences were noted.

- Reclamation liability - the reclamation liability is an estimated cost to bring the gravel pit site back to its original condition prior to mining.

Consolidated Financial Statement Disclosures

The disclosures made in the notes to the consolidated financial statements appear clear, neutral and consistent with our understanding of the entity and the amounts presented in the consolidated financial statements.

MATTERS ARISING FROM DISCUSSIONS WITH MANAGEMENT

We would like to formally acknowledge the cooperation and assistance we received from the management and staff of the County.

Over the course of our audit, our discussions and correspondence with management included:

- Reclamation liability - during the course of discussions, it was brought to our attention that the County obtained new information in the year that resulted in a change in estimate. The change in estimate results in an increase of the reclamation liability in the current year of \$1,445,000, compared to the prior year audited consolidated financial statements. The original estimate was based on performing the reclamation internally, which was determined to be unlikely due to capacity and equipment constraints. The reclamation liability was determined using input costs obtained through consultation with Wood Environmental and Infrastructure Solutions.

SIGNIFICANT DIFFERENCES

Significant adjusted differences

A full list of adjusted differences is available upon request.

Unadjusted differences

No significant differences were proposed to management with respect to the December 31, 2018 consolidated financial statements.

MODIFICATIONS TO THE INDEPENDENT AUDITOR'S REPORT

As discussed earlier, our independent auditors' report will provide an unqualified opinion to the Reeve and Council.

OTHER MATTERS

Amortization is shown as a separate line item on the consolidated statement of operations as a department. This is not consistent with PSAB guidelines however this classification error is not significant to the consolidated financial statements as a whole. Amortization is not budgeted for in the County which means the overall surplus between budget and actual will show a large variance.

MANAGEMENT REPRESENTATIONS

We have requested certain written representations from management, which represent a confirmation of certain oral representations given to us during the course of our audit.

This letter, provided by management, has been included under separate cover.

AUDITOR INDEPENDENCE

We confirm to Council that we are independent of the County. Our letter to Council discussing our independence is included under separate cover.

APPENDIX A – MNP Audit Process

Our audit was carried out in accordance with Canadian generally accepted auditing standards, and included a review of all significant accounting and management reporting systems, with each material year end balance, key transaction and other events considered significant to the consolidated financial statements considered separately.

Our audit process focused on understanding the controls utilized in management's reporting systems to the extent necessary to identify overall and specific financial reporting risks. This risk assessment enabled us to concentrate our audit procedures on the areas where differences were most likely to arise. Where possible, reliance was placed on the controls within these systems to reduce the extent of our testing of transactions and year-end balances. Our assessment was not, nor was it intended to be, sufficient to conclude on the effectiveness or efficiency of internal controls.

During the course of our audit, we have:

- Examined, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessed the accounting principles used and significant estimates made by management;
- Obtained an understanding of the County and its environment, including management's internal controls (regardless of whether we relied on them for the purpose of the audit), sufficient to identify and assess the risks of material misstatement of the consolidated financial statements and to design and perform audit procedures;
- Reviewed and assessed those accounting systems deemed necessary to support our audit opinion;
- Evaluated the overall consolidated financial statement presentation;
- Performed a subsequent events review with management;
- Reviewed and assessed the status of contingencies, commitments and guarantees;
- Reviewed and assessed exposure to environmental liabilities.

We have obtained written representations from management, included as additional materials following this report, in order to confirm oral representations given to us and reduce the possibility of misunderstanding. Specifically, we have obtained written confirmation of significant representations provided on matters that are:

- Directly related to items that are material, either individually or in the aggregate, to the consolidated financial statements;
- Not directly related to items that are material to the consolidated financial statements, but are significant, either individually or in the aggregate, to the engagement; and
- Matters relevant to management judgments or estimates that are material, either individually or in the aggregate, to the consolidated financial statements.