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April 16, 2024

Village of Lions Bay
PO Box 141
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Lions Bay, British Columbia V0N 2E0

Dear Mr. Joe Chirkoff, Financial Officer

During the course of our audit of the financial statements of the Village of Lions Bay for the year ended December 31, 2022, we identified matters which may be of interest to management. The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly an audit would not usually identify all such matters.

The responsibility for producing financial statements and ensuring adequate internal controls and sound business practices is the responsibility of Council through management and is a part of management's overall responsibility for the ongoing activities of the Village. Policies and procedures developed by the Village to safeguard its assets and to provide reasonable assurance that errors and irregularities or illegal acts are promptly identified, must be properly monitored to ensure that all staff are complying with the guidelines provided. Where we determined, from our testing, that there exists a need for improvement in existing systems of internal control or if we detected that the Village's staff are not complying with the critical accounting policies and procedures provided by management, we increased our year-end testing of account balances to ensure that audit risk was kept to an appropriately low level.

The comments and concerns expressed herein did not have a material effect on the Village's financial statements and, as such, our opinion thereon was without reservation. However, in order for the Village to ensure the safeguarding of its assets and the accuracy of its records, we believe our comments and concerns should be taken into consideration by management. Our comments are not intended to reflect upon the honesty or competence of the Village's employees.

The matters we have identified are discussed in Appendix 1.

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

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Yours truly,

Paul Fripp, CPA, CA
Partner through a corporation
BDO Canada LLP
Chartered Professional Accountants

Appendix 1

Deprovisioning Terminated Users

We identified three terminated users of the Villages banking system where there was a significant delay between their departure date from the Village and their deprovisioning from the Village's bank accounts.

Delays in deprovisioning users from the Village's financial systems exposes the Village to potential unauthorized changes within those systems and disbursement of funds. This weakness is partially mitigated by the enforcement of dual cheque signing and dual authorization of electronic fund payments.

We recommend that the Village formalize the process of user provisioning and deprovisioning, as well as a periodic review of user access to ensure that users within the system, and their system access, is appropriate.

Maintenance of Council and Committee Meeting Minutes

During our audit, we identified that starting in November of 2022, there were significant delays in recording and adopting meeting minutes of Council and Committee meetings, including closed meetings. In some instances, there were delays of more than 10 months in providing council approved minutes to us. In one instance, we noted that there are no minutes available for one closed committee meeting.

Council and Committee meeting minutes are critical corporate records for the Village on decisions carried out by Council, as well as identifying and recording other material events or circumstances impacting the Village.

The Community Charter and Local Government Act outline the requirements relating to minute taking of the Village, which include:

The Community Charter requires that a municipal procedure bylaw provide for the taking of minutes of municipal council and committee meetings, including certification of those minutes.

Municipal council and committee meeting minutes must be available to the public, except for those taken at a meeting or part of a meeting that is closed to the public.

The corporate officer has responsibility for ensuring that accurate minutes of municipal council and committee meeting are prepared, certified as needed and maintained and kept safe.

Minutes of closed meetings must record the names of all persons in attendance. If a municipal council excludes staff from closed meetings, the minutes of the meeting must be taken by someone in attendance at the meeting.

The corporate officer is still responsible to ensure that the closed minutes are accurate. Assigning minute-taking responsibility to an elected official may affect the ability of the corporate officer to fulfil this responsibility. For this reason, elected officials may want to limit the circumstances in which the corporate officer or another staff person able to take minutes is excluded from closed meetings.



We encourage the Village's Council to ensure that appropriate minute taking is occurring at each meeting and that minutes are approved by Council within a reasonable timeframe, ideally at the next appropriate meeting.

Use of Personal Correspondence by Village Officials

Throughout the course of our audit, we noted three incidents where Village Officials reached out to us using personal means of communication. Additionally, it was brought to our attention that one Village official provided banking instructions to the Village's Bankers with regards to changing banking signatories through a personal email address, attempting to add themselves as a signing officer. These actions were conducted in violation of the Village's electronic communication policy.

Conducting business outside of the Village's official means of communication exposes the Village to breaches of confidential information, incomplete corporate records and potential cyber security incidents.

We recommend that Management consider reviewing the Village's electronic communication policy with all members of staff and council, as well as conduct periodic training on cyber security, and maintaining confidential information.

Contracted Services

Following the termination of the CAO and resignation of the CFO in December 2022, Council moved rapidly to install an acting CAO in early January. An acting CFO was then rapidly installed in mid-January. These individuals were contracted on a temporary basis. To our knowledge, the appointment of these positions was not subject to a structured process and there is no evidence that multiple candidates were considered.

As contracted services, the Village's procurement policy in effect at that time stated that at least three quotes for services be considered. Additionally, as these roles are critical to the proper functioning of the Village, failing to hold a structured process to appropriately evaluate the experience and skillset of these individuals placed the Village at risk of failing to meet its obligations as required under legislation.

While we acknowledge the need to act swiftly to ensure the continued operations of the Village, we recommend that when key roles of the Village are required to be fulfilled (whether contracted or otherwise), that the Village consider a pool of candidates and appropriately review their expertise and qualifications to ensure that they can fulfill those roles.

Public Statements

On January 13, 2023, the Village disclosed in its closed meeting agenda, which is publicly available on the Village's website, that the meeting was in regard to "The issues identified for review, discussion and possible recommendations include: security of Village finances; banking controls; and related liability considerations". These discussions also occurred at the finance committee on January 10 where only two council members, two non-council committee members, a guest consultant and the newly appointed acting CAO were present. No other members of staff were present in these discussions. These matters were also discussed at a closed council meeting on January 17, 2023. It should be noted that the minutes for these meetings were not provided to us in draft until June 2023 and were not approved by Council until September 2023.



On January 18, 2023, we were notified by the CFO of the discussions being held by Council concerning financial controls but that she was not aware of the specific discussions as she was not included in any meetings and that no questions were directed to herself concerning the matter nor were any questions raised with her concerning the functioning of the Village's accounting and banking systems. On January 20th, the Village publicly released a "Village update" including what appeared to be the results of an investigation conducted by the Village related to "Finances and Banking - Lack of Proper Financial Controls".

At no point prior to the public release of the Village Update was BDO contacted by Council or by the acting CAO regarding any concerns relating to the financial controls, nor were we enquired regarding any audit findings we might have related to the financial controls of the Village.

On January 23, 2023, we received direction from the acting CAO that the newly appointed acting CFO would reach out to us to setup a meeting to review the matter; that meeting did not occur until May 2023. On January 25 we interviewed Mayor Ken Berry regarding the matter, but were told that there was insufficient information to answer our questions and that the matter should be directed to the acting CAO and CFO. The Acting CAO departed the Village in early February 2023 before we were able to connect with them on the matter.

It is concerning to us that statements relating to the integrity of the Village's financial controls were made publicly resulting from an investigation carried out by individuals who were new to the organization and did not have insight into the day-to-day operations of the Village's financial systems, and where members of finance and the auditors were not involved to provide potentially important information on the matter. Making statements of this nature without sufficient and appropriate information potentially exposes the Village liability and operational disruptions.

It is also concerning that once the statement was made, that key pieces of information were not provided to us in a timely manner. We were not able to connect with the acting CFO until May 2023 and we did not receive the relevant council and finance committee meeting minutes in draft until June 2023. It should be noted that this created a significant delay in our audit, and we expended significant resources to gather this information and develop an appropriate response.

We recommend that Council refrain from making potentially undocumented or unsupported public statements. Should Council have concerns regarding the financial controls and processes of the Village, they should make the Auditor aware of such circumstances immediately so that the auditor can adjust the audit approach to consider such matters.

Tone at the Top and Audit Cooperation

Since November 2022 and throughout 2023, as outlined above, the Village has experienced a deterioration of its internal control environment, driven by a lack of support for that overall control environment by Mayor and Council. Additionally, at times throughout our audit process, we identified a reluctance to disclose to us the decisions taken by Council.

Tone at the top, as established by Mayor and Council and Senior Management of the Village is critical to ensure the appropriate functioning of the Village. Failing to appropriately support the internal control environment, such as the adherence and promotion of appropriate policies and procedures, exposes the Village to employee turnover, operational disruption, legislative penalties, and lawsuits; all of which diminish the service quality to residents while increasing overall costs. Failing to maintain an appropriate "tone at the top" and lack of cooperation throughout the audit constitutes an audit risk where if left unaddressed could result in our inability to appropriately carry out our audit. While we were able to sufficiently resolve matters pertaining to the audit of



the 2022 financial statements, these circumstances created additional auditing requirements and significant delays in our audit process.

We recommend that Council familiarize themselves with the appropriate policies and processes of the Village, and take a leading role in promoting adherence of these policies and advocating for their continued improvement as the need arises.

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