

May 20, 2011

United Townships of Head, Clara & Maria
15 Township Hall Road
Stonecliffe, ON
K0J2K0

Dear Members of Council:

We have been engaged to audit the financial statements of United Townships of Head, Clara & Maria for the year ending December 31, 2010.

The purpose of this letter is to communicate with you regarding all relationships between the organization and us that, in our professional judgement, may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the rules of Professional Conduct of the Institute of Chartered Accountants of Ontario and applicable legislation, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in a client;
- (b) 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;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;
- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

We have prepared the following comments to facilitate our discussion with you regarding independence matters arising since March 4, 2010, the date of our last letter.

We are not aware of any relationships between United Townships of Head, Clara & Maria and us that, in our professional judgement, may reasonably be thought to bear on our independence, and that have occurred from March 4, 2010 to May 20, 2011.

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We hereby confirm that we are independent with respect to United Townships of Head, Clara & Maria within the meaning of the rules of Professional Conduct of the Institute of Chartered Accountants of Ontario as of May 20, 2011.

This report is intended solely for the use of the Members of Council, management, and others within the organization and should not be used for any other purposes.

Should you wish to discuss the contents of this letter please feel free to contact us.

Yours very truly,



Peter Harrington, CA
Welch LLP

May 20, 2011

The Corporation of the United
Townships of Head, Clara & Maria,
Stonecliffe, Ontario.
K0J 2K0

Attention: Reeve and Council
Chief Administrative Officer - Melinda Reith

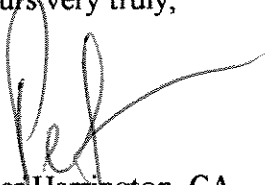
Dear Sirs:

We have completed our audit of the books and records of The Corporation of the United Townships of Head, Clara & Maria for the year ended December 31, 2010. The objective of our audit is to obtain reasonable assurance whether the financial statements are free of material misstatement and it is not designed to identify all internal control weaknesses. Accordingly our audit would not usually identify all matters that may exist. This communication is prepared solely for the information of management and is not intended for any other purpose.

We have no internal control recommendations at this time.

We would like to thank the staff for their assistance and cooperation during the course of our audit.

Yours very truly,



Peter Harrington, CA
WELCH LLP

March 21, 2011
United Townships of Head, Clara & Maria
15 Township Hall Road
Stonecliffe, ON
K0J2K0

Dear Members of Council:

As auditors of United Townships of Head, Clara & Maria we are required to communicate important matters concerning our audit to those charged with governance of the organization. Canadian generally accepted auditing standards define "those charged with governance" as the person or persons with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. In the case of United Townships of Head, Clara & Maria this responsibility rests with the municipality's Council.

As a result, in accordance with Canadian generally accepted auditing standards, we will communicate such matters to the members of council.

Responsibilities in Relation to the Financial Statement Audit

We will conduct our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

In making our risk assessments, we consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, we will communicate to the Council in writing concerning any significant deficiencies in internal control relevant to the audit of the financial statements that we have identified during the audit.

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Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian generally accepted accounting principles. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In performing our audit, we will require United Townships of Head, Clara & Maria's management to provide us with:

- unrestricted access to individuals within the organization from whom we determine it necessary to obtain audit evidence;
- access to all the information relevant to the preparation of United Townships of Head, Clara & Maria's financial statements; and
- any additional information that we may request from management for purposes of the audit.

Risk Based Approach

At Welch LLP, we use a risk based audit approach. In applying our approach, we focus our efforts on account balances and transaction flows that we feel are more likely to result in a material misstatement to the financial statements. Specific areas we intend to focus on and our related approach are outlined in the table below:

Area of focus/significant risks	Audit approach/response
Taxation and government grants	Reconcile taxation revenue from certified roll and approved tax rates to the accounting records
Payroll	Test payroll to ensure that employees are paid only at authorized rates and for work actually performed.

Internal Controls

Evaluation and documentation of the organization's internal controls is a mandatory component of our audit approach. The strength, relevance and consistent application of the internal controls in place have a direct impact on our audit approach and ultimately on the audit opinion we express.

Entity level controls encompass the organization's overall philosophy and commitment to establishing and implementing appropriate standards, adhering to those standards and monitoring compliance with those standards. On past audits we have observed the organization's management and those charged with governance are committed to creating an organizational environment that is focused on integrity and competence. This sends a strong message to others within the organization which in our opinion creates an effective internal control environment that we as auditors can rely on when conducting our audit. This in turn enables us to consider placing reliance on operational controls.

Based on our preliminary assessment we anticipate relying on internal controls in the following areas:

Account balance/transaction flow affected	Description of internal control
Purchases and payments	All disbursements are supported by a source document and all cheques are signed by two authorized people
Payroll	Employee pay grid and timesheets

Materiality

With respect to materiality, we follow the guidance provided by Canadian Auditing Standard 320 – “Materiality in Planning and Performing an Audit” (CAS 320). Accordingly, when we establish our overall audit strategy, we are required to establish an overall materiality figure for the financial statements as a whole and, if specific circumstances dictate, establish a separate materiality for a particular account balance, class of transaction or disclosure.

Based on our understanding of the entity, the users of the financial statements and the guidance outlined in CAS 320 we have established overall materiality at one percent of expenses. This level of materiality will apply to all account balances, classes of transaction and disclosures.

Timing of the Audit

Based on our discussions to date with management we anticipate following the following schedule for completion of the 2010 audit:

Stage of the audit/deliverable	Date
Planning	February 2011
Interim fieldwork	March 2011
Year-end fieldwork	March 2011
Draft financial statements	May 2011
Council meeting	May 2011
Final financial statements due	May 2011

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Audit Team

The key members of the audit team for 2010 are shown in the table below:

Name	Responsibility
Peter, Harrington Engagement Partner pharrington@welchllp.com (613) 735-1021	Responsible for the overall delivery of the audit including the quality of outputs, signing the auditors' report, and communicating with the Treasurer, Clerk and Members of Council.

We welcome all feedback on the work of the team on an ongoing basis and ask that you identify to us any areas in which you would like to see the quality of our service improved.

Reporting matters to those charged with governance

Canadian Auditing Standard (CAS) 260 requires auditors to report audit matters to those charged with governance which as explained earlier, will be the municipality's members of Council in United Townships of Head, Clara & Maria's case. This information should be considered by the Council reviewing and approving the accounts. We will provide this information to the municipality's members of council upon substantial completion of our audit and the information communicated will include the following matters if any were identified:

- details of any unadjusted misstatements in the organizations accounts, along with reasons why the adjustments have not been made;
- details of any significant deficiencies in the accounting and internal control system
- details with respect to any significant difficulties encountered during the audit

New Canadian Auditing Standards (CASs)

The Auditing and Assurance Standards Board (AASB) recently adopted 36 International Standards on Auditing (ISAs) as Canadian Auditing Standards (CASs) for audits of financial statements for periods ending on or after December 14, 2010. As a result, these new standards will apply to the audit of United Townships of Head, Clara & Maria financial statements for the year-ended December 31, 2010.

We have completed a comprehensive review of these new standards and have concluded that we already perform the vast majority of the audit requirements outlined in these new standards. As a result, we expect the transition to the new standards will be relatively seamless for United Townships of Head, Clara & Maria with the following notable exceptions:

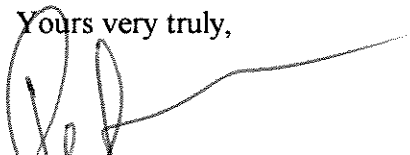
The new standards have resulted in a modification with respect to the structure and content of the auditors' report. See Appendix A for an example report.

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The date of the auditors' report has now been extended such that it cannot be earlier than the date that the organization's board approves the financial statements. This will require us to extend that date of our subsequent events testing and as a result we will need to consider this requirement when we work with management to co-ordinate the audit schedule and the related committee meetings.

Should you wish to discuss the contents of this letter please feel free to contact us.

Yours very truly,

A handwritten signature in black ink, appearing to read 'Peter Harrington', with a long horizontal line extending to the right.

Peter Harrington, CA
Welch LLP

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INDEPENDENT AUDITORS' REPORT

To the Members of Council, Inhabitants and Raterpayers of the of
UNITED TOWNSHIPS OF HEAD, CLARA & MARIA

We have audited the accompanying consolidated financial statements of **UNITED TOWNSHIPS OF HEAD, CLARA & MARIA**, which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **UNITED TOWNSHIPS OF HEAD, CLARA & MARIA** as at December 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Welch LLP
Chartered Accountants
Licensed Public Accountants

Pembroke, Ontario
May 20, 2011