



MNP

Town of Lake Cowichan

2024 Audit Service Plan

Report to Mayor and Council

December 31, 2024

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December 17, 2024

Mayor and Council of Town of Lake Cowichan

Dear Mayor and Council:

We are pleased to present our Audit Service Plan for Town of Lake Cowichan (the "Town"). In this plan we describe MNP's audit approach, our engagement team, the scope of our audit and a timeline of anticipated deliverables. We are providing this Audit Service Plan to Mayor and Council on a confidential basis. It is intended solely for the use of Mayor and Council and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on this report.

Our audit will include an audit of the Town's consolidated financial statements for the year ended December 31, 2024, prepared in accordance with Canadian public sector accounting standards. Our audit will be conducted in accordance with Canadian generally accepted auditing standards.

At MNP, our objective is to perform an efficient, high quality audit which focuses on those areas that are considered higher risk. We adhere to the highest level of integrity and professionalism. We are dedicated to maintaining open channels of communication throughout this engagement and will work with management to coordinate the effective performance of the engagement. Our goal is to exceed Mayor and Council's expectations and ensure you receive outstanding service.

Additional material provided along with this report includes our engagement letter. Our Engagement Letter is the formal written agreement of the terms of our audit engagement as negotiated with management and outlines our responsibilities under Canadian generally accepted auditing standards.

We look forward to discussing our Audit Service Plan with you and look forward to responding to any questions you may have.

Sincerely,

MNP LLP

MNP LLP

Chartered Professional Accountants

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MNP's Client Service Commitment

To make strategic business decisions with confidence, your stakeholders and Mayor and Council of the Town need relevant, reliable and independently audited financial information. But that's not all. You need an audit team that can deliver insight beyond the numbers and enhance the Town's strategic planning and implementation processes so you can embrace new opportunities while effectively managing risk. Our audit strategy is risk based, and considers the limitations and opportunities you encounter each day, allowing our recommendations to be implemented with greater ease. Committed to your success, MNP delivers meaningful, reliable financial information to not only help you fulfill your compliance obligations, but also to achieve your key strategic goals.

Our Audit Service Plan outlines the strategy we will follow to provide the Town's Mayor and Council with our Independent Auditor's Report on the December 31, 2024 consolidated financial statements.


Topics for Discussion

We are committed to providing superior client service by maintaining effective two-way communication. Topics for discussion include, but are not limited to:

- Changes to your business operations and developments in the financial reporting and regulatory environment
- Business plans and strategies
- Any other issues and/or concerns
- Documents comprising the annual report, and their timing of issuance
- Fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual, suspected or alleged fraud
- The management oversight process
- Your specific needs and expectations

Key Changes and Developments

Based on our knowledge of the Town and our discussions with management, we have not noted any recent developments.

Key Issues and Developments		Summary
	New Reporting Developments	<ul style="list-style-type: none"> • Narrow Scope Amendments – Purchased Intangibles (New Accounting Guideline PSG-8) • Concepts Underlying Financial Performance (New Conceptual Framework for Financial Reporting in the Public Sector) • Concepts Underlying Financial Performance (New Section PS 1202) • Tangible Capital Assets (Proposed Amendments to Section PS 3150) (Exposure Draft) • Employee Benefits (Proposed New Section PS 3251) (Exposure Draft) <p>Communicate the impact of these reporting developments on the audit or the Entity</p>

Detailed information on Key Changes and Developments are included as Appendix A.

Risk Assessment

Risk Assessment

Based on the preliminary risk assessment procedures performed, we have identified the following significant and high risks which will be addressed during our audit. We have also outlined the proposed audit response to address those risks. We will update our risk assessment as the audit progresses for additional risks identified and will inform management of any additional significant risks identified.

Significant Risk Area	Proposed Audit Response
Management override of internal controls	To respond to the overall risk of material misstatement due to fraud regarding management's override of controls, we perform the following procedures: <ol style="list-style-type: none">1. Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements2. Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud, if applicable3. Evaluate the rationale behind significant transactions that are not in the normal course of business and whether they have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets

Key Milestones

Based on the audit planning performed and areas of audit risks identified, the following timelines for key deliverables have been discussed and agreed upon with management:

Key Deliverable	Expected Date
Delivery of December 31, 2024 Audit Service Plan to Mayor and Council	December 2024
Interim procedures	January 13, 2025 to January 14, 2025
Year-end fieldwork procedures	April 7, 2025 to April 11, 2025
Presentation of December 31, 2024 Audit Findings Report to Mayor and Council	May 2025
Presentation of Management Letter to Mayor and Council	May 2025
Issuance of Independent Auditor's Report	May 2025

Audit Materiality

Materiality is an important audit concept. It is 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. Specifically, a misstatement or the aggregate of all misstatements in consolidated financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures) is considered to be material if it is probable that the decision of the party relying on the consolidated financial statements, who has reasonable understanding of business and economic activities, will be changed or influenced by such a misstatement or the aggregate of all misstatements.

The scope of our audit work is tailored to reflect the relative size of operations of the Town and our assessment of the potential for material misstatements in the Town's consolidated financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures). In determining the scope, we emphasize relative audit risk and materiality, and consider a number of factors, including:

- The size, complexity, and growth of the Town;
- Changes within the organization, management or accounting systems; and
- Concerns expressed by management.

The scope of our audit work is tailored to reflect the relative size of operations of the Town and our assessment of the potential for material misstatements in the Town's consolidated financial statements as a whole.

Judgment is applied separately to the determination of materiality in the audit of each set of consolidated financial statements (and, if applicable, for particular classes of transactions, account balances or disclosures) and is affected by our perception of the financial information needs of users of the consolidated financial statements. In this context, it is reasonable to assume that users understand that consolidated financial statements are prepared, presented and audited to levels of materiality; recognize uncertainties inherent in the measurement of amounts based on the use of estimates, judgment and consideration of future events; and make reasonable economic decisions based on the consolidated financial statements. The foregoing factors are taken into account in establishing the materiality level.

We propose to use \$520,000 as overall materiality for audit planning purposes.

Audit Team

In order to ensure effective communication between Mayor and Council and MNP, we outline below the key members of our audit team that will be responsible for the audit of the Town and the role they will play:

Team Members	Contact Information
Cory Vanderhorst, CPA, CA, Engagement Partner	E: Cory.Vanderhorst@mnp.ca
Gavin Reid, CPA, Manager	E: Gavin.Reid@mnp.ca
James Kungel, CPA, CA, Tax Specialist	E: James.Kungel@mnp.ca

In order to serve you better and meet our professional responsibilities, we may find it necessary to expand our audit team to include other professionals whose consultation will assist us to evaluate and resolve complex, difficult and/or contentious matters identified during the course of our audit.



Any changes to the audit team will be discussed with you to ensure a seamless process and that all concerned parties' needs are met.

Fees and Assumptions

DESCRIPTION	2024 ESTIMATE	ACTUAL
Base audit fee as per our fee quote October 25, 2024	\$ 29,000	\$ 21,000
Adoption of PS 3280 Asset Retirement Obligations	\$ -	\$ 2,000
Total	\$ 29,000	\$ 23,000

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the engagement partner, so a mutually agreeable solution can be reached.

Invoices will be rendered as work progresses in accordance with the following schedule:

DESCRIPTION	AMOUNT
On delivery of the audit service plan 50% of the estimated fee	\$ 14,500
At the start of year-end field work, 25% of the estimated fee	\$ 7,250
Final billing - upon the delivery of the financial statements and independent auditors' report	\$ 7,250
Total	\$ 29,000

Appendix A – Key Changes and Developments

We would like to bring to your attention the following accounting and auditing developments, which may have some impact on your financial reporting.

Issues and Developments Summary

New Reporting Developments

Narrow Scope Amendments – Purchased Intangibles (New Accounting Guideline PSG-8)

In November 2020, the Public Sector Accounting Board (PSAB) issued amendments to Section PS 1000 *Financial Statement Concepts* and Section PS 1201 *Financial Statement Presentation*. As a consequence, Public Sector Guideline 8 *Purchased Intangibles* (PSG-8) was issued at the same time.

PSG-8 explains the scope of the intangibles allowed to be recognized in financial statements given the removal of the recognition prohibition relating to purchased intangibles in Section PS 1000. The main features of the new Guideline are:

- A definition of purchased intangibles;
- Examples of items that are not purchased intangibles;
- References to other guidance in the PSA Handbook on intangibles; and
- Reference to the asset definition, general recognition criteria and the Generally Accepted Accounting Principles (GAAP) hierarchy for accounting for purchased intangibles.

The amendments to Section PS 1000 allow for recognition of purchased intangibles in financial statements. The main features of the amendments include:

- Removal of the prohibition on recognition of purchased intangibles as assets; and
- Reference to the new PSG-8.

The amendments to Section PS 1201 remove disclosure requirements for unrecognized purchased intangibles as they are irrelevant given the amendments made to Section PS 1000 allowing recognition of purchased intangibles in financial statements.

The amendments to Section PS 1000 and Section PS 1201 and PSG-8 are effective for fiscal years beginning on or after April 1, 2023. Early adoption is permitted. Retroactive or prospective application is permitted.

Concepts Underlying Financial Performance (New Conceptual Framework for Financial Reporting in the Public Sector)

In December 2022, the Public Sector Accounting Board (PSAB) issued *The Conceptual Framework for Financial Reporting in the Public Sector* (the Conceptual Framework) which replaces conceptual aspects of Section PS 1000 *Financial Statement Concepts* and Section PS 1100 *Financial Statement Objectives*.

The Conceptual Framework outlines:

- Characteristics of public sector entities;

Appendix A – Key Changes and Developments (continued from previous page)

- The objective of financial reporting;
- Primary users of financial reporting and their expectations;
- The role, foundations and objectives of financial statements;
- Qualitative characteristics of information in financial statements and related considerations;
- Definitions of elements;
- Criteria of general recognition and derecognition; and
- Concepts of general measurement and presentation.

The Conceptual Framework applies for fiscal years beginning on or after April 1, 2026, with earlier adoption permitted.

As a result of the issuance of the Conceptual Framework, various Sections and Guidelines of the PSA Handbook have been withdrawn or amended. Most notably, Section PS 1000 and Section PS 1100 have been withdrawn and replaced with the Conceptual Framework. Other consequential amendments include updates to:

- References to the Conceptual Framework
- The Introduction to the Public Sector Accounting Handbook
- Section PS 1150 *Generally Accepted Accounting Principles*
- Section PS 1201 *Financial Statement Presentation*
- Section PS 1300 *Government Reporting Entity*
- Section PS 2100 *Disclosure of Accounting Policies*
- Section PS 2120 *Accounting Changes*
- Section PS 2130 *Measurement Uncertainty*
- Section PS 2200 *Related Party Disclosures*
- Section PS 3150 *Tangible Capital Assets*
- Section PS 3200 *Liabilities*
- Section PS 3210 *Assets*
- Section PS 3400 *Revenue*
- Section PS 3430 *Restructuring Transactions*
- Section PS 3450 *Financial Instruments*
- Section PS 4230 *Capital Assets Held by Not-for-Profit Organizations*

Concepts Underlying Financial Performance (New Section PS 1202)

In October 2023, the Public Sector Accounting Board (PSAB) issued Section PS 1202 *Financial Statement Presentation* which replaces PS 1201 *Financial Statement Presentation*.

The new Section PS 1202:

- Discusses going concern that builds on the discussion in *The Conceptual Framework for Financial Reporting in the Public Sector*;
- Changes the statement of financial position by:
 - Relocating the calculation of the net financial liabilities (formerly known as “net debt”) or net financial assets indicator, to its own statement;
 - Introducing two categories of liabilities: financial and non-financial;

Appendix A – Key Changes and Developments (continued from previous page)

- Adding a third component of net assets or net liabilities: “accumulated other”;
- Updating the definition of “non-financial assets”;
- Restructuring the statement to present assets, followed by liabilities, followed by net assets or net liabilities; and
- Providing an option to show the net financial assets or net financial liabilities indicator below the indicator of financial position, with reference to the statement of net financial assets or net financial liabilities;
- Adds a statement of net financial assets or net financial liabilities that presents the revised net financial assets or net financial liabilities calculation;
- Provides the option to present the change in net financial assets or net financial liabilities on the statement of net financial assets or net financial liabilities;
- Includes a statement of operations similar to the one in superseded Section PS 1201;
- Permits presenting an amended budget only when there is an election or when the majority of the governing body of a government organization has been newly elected or appointed;
- Adds the statement of changes in net assets or net liabilities that includes a reconciliation of each component of net assets or net liabilities and incorporates what is required in superseded Section PS 1201 to be included in the statement of remeasurement of gains and losses;
- Isolates financing activities in the statement of cash flow; and
- Includes guidance in various appendices in the form of application guidance, decision trees, illustrative examples and illustrative financial statements.

Section PS 1202 applies to fiscal years beginning on or after April 1, 2026. Earlier adoption is permitted only if the Conceptual Framework is also adopted at the same time. Prior period amounts would need to be restated to conform to the presentation requirements for comparative financial information in Section PS 1202.

Various consequential amendments resulting from the issuance of Section PS 1202 have also been issued. These include various Sections and Guidelines of the PSA Handbook that have been withdrawn or amended.

Tangible Capital Assets (Proposed Amendments to Section PS 3150) (Exposure Draft)

In December 2023, the Public Sector Accounting Board (PSAB) issued an Exposure Draft (ED) which proposes to issue amendments to Section PS 3150 *Tangible Capital Assets*, resulting from a review of Section PS 4230 *Capital Assets Held by Not-for-Profit Organizations* and Section PS 4240 *Collections Held by Not-for-Profit Organizations*, as part of its Government Not-for-Profit (GNFP) Strategy Implementation Plan. The ED proposes the following:

- Amending to the definition of “tangible capital asset” in paragraph PS 3150.05(a) for only a minor clarification
- Retaining the emphasis on recognizing the complete stock of tangible capital assets in Section PS 3150
- Not recognizing works of art, historical treasures and collections as outlined in Section PS 3150
- Adding guidance to Section PS 3150 to identify a “collection”
- Adding more disclosures to Section PS 3150 to convey the importance of works of art, historical treasures and collections
- Adding guidance to Section PS 3150 to clarify the accounting treatment for situations when a tangible capital asset is purchased at substantially below fair value

Appendix A – Key Changes and Developments (continued from previous page)

- Adding guidance to Section PS 3150 to clarify the accounting treatment for contributed materials and labour in determining the cost of a constructed tangible capital asset

For government not-for profit organizations (GNFPOs) currently applying the PS 4200 series, once the entity applies Section PS 3150, Section PS 4230 and Section PS 4240 will no longer apply.

Proposed amendments to Section PS 3150 would be effective for fiscal years beginning on or after April 1, 2029. Earlier adoption would be permitted.

Employee Benefits (Proposed New Section PS 3251) (Exposure Draft)

The Public Sector Accounting Board (PSAB) is reviewing feedback on an Exposure Draft (ED) that was issued in July 2021, which outlines the proposed principles for the first of several phases of a project to develop a revised employee benefits standard, Section PS 3251 *Employee Benefits*, to replace Section PS 3250 *Retirement Benefits* and Section PS 3255 *Post-Employment Benefits, Compensated Absences and Termination Benefits*. The intent of this project is to improve understandability of the financial reporting of employee benefits and provide financial statement users with better information for accountability purposes.

This is the first ED of this project and focuses on guidance for deferral provisions and discount rates. The main features of this ED include:

- A proposed change to the deferral and amortization approach for actuarial gains and losses whereby revaluations of the net defined benefit liability (asset), including actuarial gains and losses, would be recognized immediately on the statement of position within the net defined benefit liability (asset) and the accumulated other component of net assets.
- A proposal that the rate used to discount a post-employment benefit plan would depend on the plan's funding status.
- Changes to the determination of net interest on the net defined benefit liability (asset).
- Minor modifications to the guidance for joint defined benefit plans.
- Expanded disclosures are proposed to improve the relevance and understandability of the information being provided.

Section PS 3251 would be effective for fiscal years beginning on or after April 1, 2026. Early adoption would be permitted.

New Assurance Developments

Joint Policy Statement (JPS) Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors (Appendix to CAS 500)

In March 2023, the Auditing and Assurance Standards Board (AASB) appended the *Joint Policy Statement Concerning Communications between Actuaries Involved in the Preparation of Financial Statements and Auditors* (Statement) to Canadian Auditing Standard (CAS) 500 *Audit Evidence* in the CPA Canada Handbook – Assurance. The Statement replaces the existing Statement with the same title. The AASB and the Canadian Actuarial Standards Board (ASB) uploaded the revised Statement on the AASB and Canadian Institute of Actuaries websites in February 2023. The Statement applies when:

Appendix A – Key Changes and Developments (continued from previous page)

- An auditor is engaged to carry out an audit of financial statements in accordance with generally accepted auditing standards where the financial statements prepared by management include amounts determined by or with the assistance of an actuary; or
- An actuary uses the work of an auditor in connection with conducting the actuarial valuation to determine amounts to be included in the financial statements prepared by management.

The revised Statement includes:

- Clarifications to its scope;
- Clarifications to the use of the other professional's work and addresses potential inappropriate use of that work;
- Enhancements to the discussions between auditors and actuaries, including the written response from the responding professional to the inquiring professional; and
- Other enhancements to clarify the Statement.

The revised Statement is effective for communications between the auditor and the actuary initiated on or after March 31, 2023. Early application is permitted.

Group Audits (Amendments to CAS 600)

In August 2022, the Auditing and Assurance Standards Board (AASB) issued the revised CAS 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* to replace the existing CAS 600 and adopt, with appropriate Canadian amendments, the International Standard on Auditing (ISA) 600 (Revised), *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* and any conforming and consequential amendments.

The revised standard incorporates several key changes to establish more robust requirements and provide detailed guidance for group auditors and component auditors when conducting a group audit, including:

- Introducing a principles-based approach that can be adapted and is scalable for group audits of varying circumstances and complexities;
- Establishing a framework for planning and performing a group audit engagement;
- Emphasizing the importance of professional skepticism;
- Clarifying and providing solutions to overcome restriction issues related to access to people, information, or audit documentation;
- Clarifying how the concepts of materiality and aggregation risk apply in a group audit;
- Specifying the importance of two-way communications between the group auditor and component auditors, including expectations regarding the timing of those communications; and
- Strengthening various aspects of the group auditor's interaction with component auditors.

As a result of issuing the revised CAS 600, requirements for several other standards have been amended to better articulate the auditor's responsibilities regarding audits of group financial statements:

- CAS 300 *Planning an Audit of Financial Statements*
- CAS 320 *Materiality in Planning and Performing an Audit*
- CAS 700 *Forming an Opinion and Reporting on Financial Statements*

Appendix A – Key Changes and Developments (continued from previous page)

The revised CAS 600 and conforming amendments to other standards are effective for audits of financial statements for periods beginning on or after December 15, 2023. Earlier application is permitted.

Quality Management (New CSQM 1 and Conforming Amendments)

In May 2021, the Auditing and Assurance Standards Board (AASB) issued Canadian Standard on Quality Management (CSQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* which revises and replaces existing Canadian Standard on Quality Control (CSQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*. The new CSQM aims to strengthen the standards addressing quality control and broadens the requirement for the firm's system of quality management beyond audits, reviews and other assurance services to also include related services engagements that were formerly excluded: compilation engagements, agreed-upon procedures engagements, and engagements to report on supplementary matters arising from an audit or a review engagement.

CSQM 1 requires the firm to apply a risk-based approach in the design, implementation, and operation of the system of quality management while taking into account the nature and circumstances of both the firm and the engagements the firm performs. It also sets out requirements relating to:

- The system of quality management;
- The firm's risk assessment process;
- Governance and leadership;
- Relevant ethical requirements;
- Acceptance and continuance of client relationships and specific engagements;
- Engagement performance;
- Resources;
- Information and communication;
- Specified responses;
- The monitoring and remediation process;
- Network requirements or network services;
- Evaluating the system of quality management; and
- Documentation.

As a result of issuing CSQM 1, amendments have been made to CAS 620 *Using the Work of an Auditor's Expert* and other editorial changes have been made to other standards.

CSQM 1 is effective as follows:

- Firms are required to design and implement their system of quality management for audits or reviews of financial statements or other assurance engagements by December 15, 2022. They are required to evaluate their system within one year following this date.
- Firms are required to design and implement their system of quality management for related services engagements by December 15, 2023. They are required to evaluate their system within one year following this date.

Appendix A – Key Changes and Developments (continued from previous page)

In May 2022, the Auditing and Assurance Standards Board (AASB) issued conforming amendments to appropriately reflect the requirements of the recently approved suite of Canadian quality management standards at the engagement level in all Other Canadian Standards in order to achieve the benefits of adopting a new approach to managing and achieving quality on engagements. The conforming amendments to Other Canadian Standards include adding requirements and application material dealing with quality management to standards that were previously not subject to the Canadian Standard of Quality Control (CSQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*, but are now within the scope of:

- Canadian Standard on Quality Management (CSQM) 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; and
- CSQM 2 *Engagement Quality Reviews*.

These conforming amendments for Other Canadian Standards are made to the standards in the following areas:

- Canadian Standards on Review Engagements (CSREs);
- Canadian Standards on Assurance Engagements (CSAEs);
- Canadian Standards on Related Services (CSRSs) and standards for specialized areas and other related services,
- Canadian Standard on Association (CSOA) 5000; and
- Assurance and Related Services Guidelines (AuGs).

Different effective dates apply based on the nature of the engagement to make transition easier:

- Conforming amendments to assurance standards are effective for periods or engagements, as appropriate, beginning on or after December 15, 2022.
- The effective dates of the conforming amendments to related services standards that are performed in conjunction with an audit or a review engagement are for periods beginning on or after December 15, 2022.
- For other related services engagements that are not performed in conjunction with an assurance engagement, including compilation engagements and agreed-upon procedures engagements, the effective date for the conforming amendments is for periods or engagements beginning on or after December 15, 2023, respectively.
- Under CSOA 5000, the practitioner's consent may be provided in conjunction with an audit, review, other assurance or related service engagement. Therefore, the effective date of conforming amendments will be determined based on the effective date of the related engagement.

Quality Management (New CSQM 2)

In May 2021, the Auditing and Assurance Standards Board (AASB) issued a new standard Canadian Standard on Quality Management (CSQM) 2 *Engagement Quality Reviews* which replaces material previously addressed in Canadian Standard on Quality Control (CSQC) 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*.

Appendix A – Key Changes and Developments (continued from previous page)

The new standard provides guidance on the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to performance and documenting an engagement quality review.

As a result of issuing CSQM 2, editorial changes have been made to other standards.

CSQM 2 is effective for:

- Audits and reviews of financial statements and other assurance engagements for periods beginning on or after December 15, 2022; and
- Related services engagements beginning on or after December 15, 2023.

Key Audit Matters (CAS 700 and 701 Amendments)

In December 2019, the Auditing and Assurance Standards Board (AASB) issued amendments to CAS 700 and CAS 701. The amendments expand the requirement for auditors to communicate key audit matters (KAMs) for audits of complete sets of general purpose financial statements, to include other listed entities, excluding listed entities required to comply with National Instrument (NI) 81-106 *Investment Fund Continuous Disclosure*.

In a previous amendment issued by the AASB in December 2018, the requirement to communicate KAMs was limited to entities listed on the Toronto Stock Exchange (TSX), excluding entities required to comply with NI 81-106, and was effective for audits of financial statements for periods ending on or after December 15, 2020.

The amendments issued in December 2019 require auditors to communicate KAMs for audits of complete sets of general purpose financial statements of:

- Entities listed on the TSX, excluding listed entities required to comply with NI 81-106, for periods ending on or after December 15, 2020.
- Other listed entities, excluding listed entities required to comply with NI 81-106, for periods ending on or after December 15, 2022.
- All entities for periods ending on or after December 15, 2018 when:
 - The auditor decides to communicate KAMs in the auditor's report; or
 - The auditor is required by law or regulation to communicate KAMs in the auditor's report.

Appendix B – The Audit Process

Our Plan

Our audit process focuses on significant risks identified during the pre-planning and planning and risk assessment stage, ensuring that audit procedures are tailored to your specific circumstances and appropriately address those risks.

Mayor and Council is responsible for approval of the consolidated financial statements and Town policies, and for monitoring management's performance. Mayor and Council should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. Mayor and Council, together with management, is also responsible for the integrity of the accounting and financial reporting systems, including controls to prevent and detect fraud and misstatement, and to monitor compliance with relevant laws and regulations.

Effective discharge of these respective responsibilities is directed toward a common duty to provide appropriate and adequate financial accountability, and quality financial disclosure.

Key responsibilities of MNP and management are outlined in the Engagement Letter (see attached).

Our overall audit strategy is risk-based and controls-oriented. Assessment and identification of risk is performed continuously throughout the audit process. We focus on the risks that have a potential impact on the financial accounting systems and subsequent financial reporting.

Our overall audit strategy does not, and is not intended to involve the authentication of documents, nor are our team members trained or expected to be experts in such authentication. Unless we have reason to believe otherwise, we accept records and documents as genuine. The subsequent discovery of a material misstatement resulting from fraud does not, in and of itself, indicate a failure to comply with Canadian generally accepted auditing standards.

Audit Procedures

To meet our responsibilities in accordance with Canadian generally accepted auditing standards, our audit examination includes:

- Obtaining an understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal controls, in order to identify and assess the risk that the consolidated financial statements contain material misstatements due to fraud or misstatement;
- Assessing the design and implementation of and examining, on a test basis, the key controls over significant transaction streams and over the general organizational and computer environments;
- Assessing the systems used to ensure compliance with applicable legislative and related authorities pertaining to financial reporting, revenue raising, borrowing, and investing activities;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the appropriateness and consistency of accounting principles used and their application;


Appendix B – The Audit Process

(continued from previous page)

- Assessing the significant estimates used by management; and,
- Assessing the entity’s use of the going concern basis of accounting in the preparation of the consolidated financial statements.

As part of our planning process, we will also undertake to inform Mayor and Council of concerns relating to management’s implementation and maintenance of controls, and the effects of any such concerns on the overall strategy and scope of the audit. These concerns might arise from the nature, extent and frequency of management’s assessments of controls in place to detect fraud and misstatement, and of the risk that the consolidated financial statements may be misstated; from a failure by management to appropriately address significant deficiencies in controls identified in prior audits; and, from our evaluation of the Town’s control environment, and management’s competence and integrity.

Overall Reliance

Control Reliance Level	Low/None	Moderate	High
Description	Where we cannot rely on controls because they are weak or absent, or where it is deemed to be more efficient to carry out a high level of direct substantive tests of details. Audit evidence is primarily obtained through detailed verification procedures and sufficient substantive tests of details.	Where there are some deficiencies in systems application or procedural controls, or where it is deemed to be inefficient to test systems application controls, but where we can test and rely on the management monitoring systems in place to detect and correct material misstatements in the financial reporting systems. Testing of controls is supplemented with a moderate level of substantive tests of details.	Where a high degree of control is in place in the areas of management monitoring controls AND systems application and procedural controls. Our audit work focuses on testing both management monitoring and systems application and procedural controls, and is supplemented with a low level of substantive tests of details.
Planned Reliance		—	—

Appendix B – The Audit Process

(continued from previous page)

For the December 31, 2024 audit, we are planning to place low reliance on the Town's controls. This level of reliance is consistent with the prior year, and will involve mainly substantive tests of details.

The amount of substantive work will be reduced for cycles where there are controls in place that MNP can test and rely on.

As part of our audit work we will update our understanding of the entity and its environment, the applicable financial reporting framework and the entity's system of internal controls relevant to our audit of the principal transaction cycles, sufficient to identify and assess the risks of material misstatement of the consolidated financial statements resulting from fraud or misstatement. This will be accomplished through inquiries with management and others within the entity, analytical procedures and observation and inspection. Furthermore, we will consider whether effective controls have been established to adequately respond to the risks arising from the use of IT or manual systems and test the operation of those controls to an extent sufficient to enable us to reduce our substantive work. Our review of the Town's controls will not be sufficient to express an opinion as to their effectiveness or efficiency.

Although we will provide Mayor and Council with any information about significant deficiencies in internal control that have come to our attention, we may not be aware of all the significant deficiencies in internal control that do, in fact, exist.



Inherent Limitations in the Auditing Process

An auditor cannot obtain absolute assurance that material misstatements in the consolidated financial statements will be detected due to factors such as the use of significant judgment regarding the gathering of evidence and the drawing of conclusions based on the audit evidence acquired; the use of testing of the data underlying the consolidated financial statements; inherent limitations of controls; and, the fact that much of the audit evidence available to the auditor is persuasive, rather than conclusive in nature.

Because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material fraud. While effective controls reduce the likelihood that misstatements will occur and remain undetected, they do not eliminate that possibility. Therefore, the auditor cannot guarantee that fraud, misstatements and non-compliance with laws and regulations, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

The likelihood of not detecting material misstatements resulting from management fraud is greater than for employee fraud, because management is in a position to manipulate records, present fraudulent information or override controls.

We will inform the appropriate level of management or Mayor and Council with respect to identified:

- Misstatements resulting from errors, other than clearly trivial misstatements;

Appendix B – The Audit Process

(continued from previous page)

- Fraud, or any information obtained that indicates that fraud may exist;
- Evidence obtained that indicates non-compliance or possible non-compliance with laws and regulations, other than that considered inconsequential;
- Significant deficiencies in the design or implementation of controls to prevent and detect fraud or misstatement; and
- Related party transactions that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure.

Our concern as auditors is with material misstatements, and thus, we are not responsible for the detection of misstatements that are not material to the consolidated financial statements taken as a whole.

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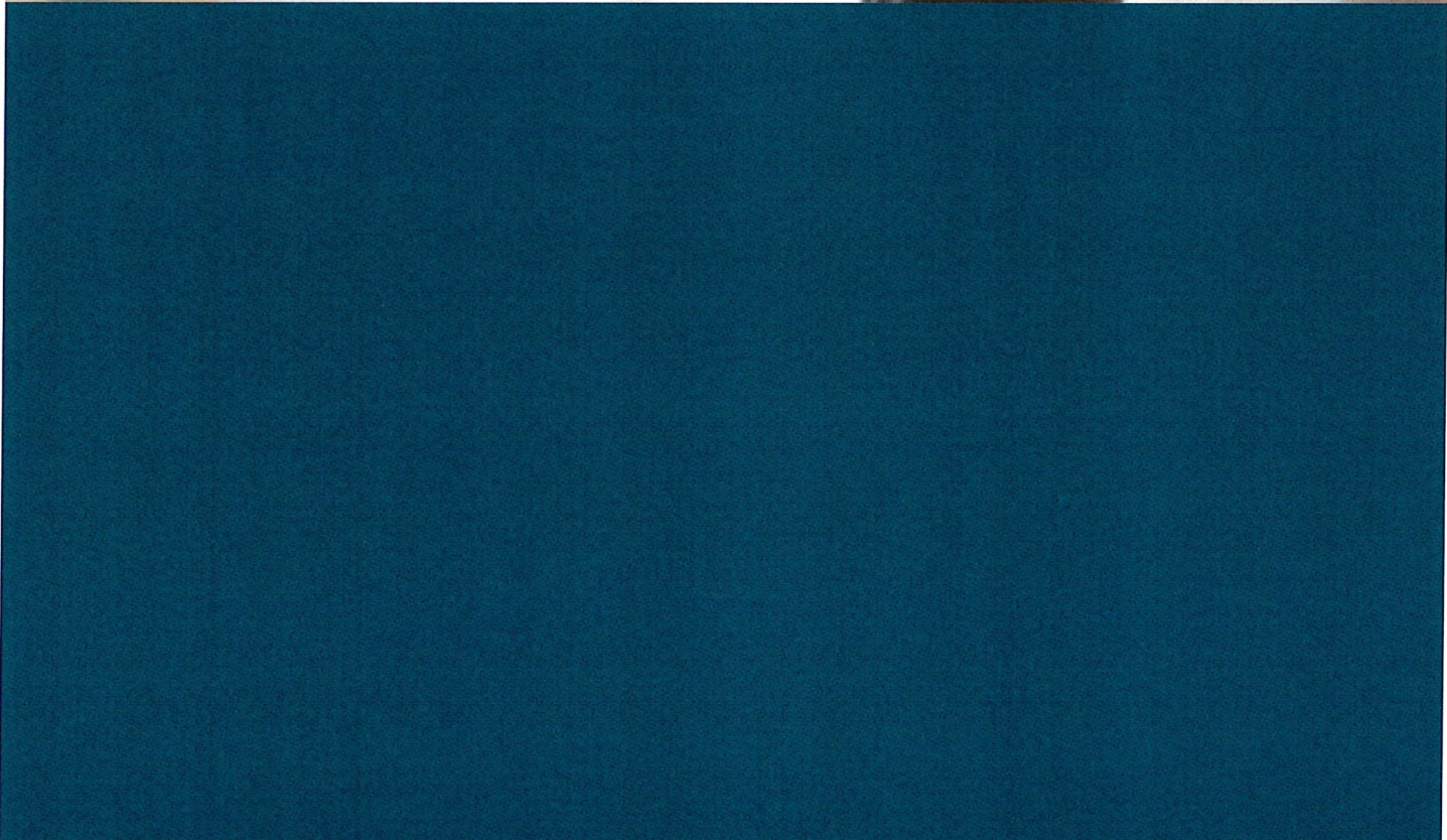
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