



The Corporation of the Municipality of Strathroy - Caradoc

2024 Audit Service Plan Report to Council

December 31, 2024

Ashley Didone, CPA, CA
519.286.1808 | ashley.didone@mnp.ca



Wherever business takes you

[MNP.ca](https://mnp.ca)




Members of Council of the Corporation of the Municipality of Strathroy-Caradoc

Dear Council:

We are pleased to present our Audit Service Plan for The Corporation of the Municipality of Strathroy – Caradoc (the “Municipality”). 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 the Council on a confidential basis. It is intended solely for the use of the 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 Municipality’s consolidated financial statements for the year ended December 31, 2024, prepared in accordance with Canadian Public Sector Accounting Standards (PSAS). 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 the Council’s expectations and ensure you receive outstanding service.



Additional materials include our Engagement Letter and draft Independence Communication. 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. Our draft Independence Communication formally confirms in writing MNP’s independence.

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

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants



Table of Contents

MNP's Client Service Commitment

Topics for Discussion

Key Issues and Developments

Risk Assessment

Key Milestones

MNP's Audit Process

Audit Materiality

Group Audit

Control Reliance

Audit Team

Fees and Assumptions

Auditor Independence

MNP Insights

Cybersecurity

ESG

Appendix A – MNP Audit Process

Appendix B – Required Communication with Those Charged with Governance

MNP's Client Service Commitment

To make strategic business decisions with confidence, your stakeholders and the Council of the Municipality 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 Municipality'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 Municipality's Council with our Independent Auditor's Report on the December 31, 2024 consolidated financial statements.



Topics for Discussion

We are committed to provide 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
- The management oversight process
- Fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual, suspected or alleged fraud
- Your specific needs and expectations
- Any other issues and/or concerns

A summary of required communications with those charged with governance, as outlined by Canadian Auditing Standards (CAS), is included in Appendix B.

Key Issues and Developments

Based on our knowledge of the Municipality and our discussions with management, we have noted the recent developments set out below. Our audit strategy has been developed considering these factors.

Key Issues and Developments	Summary
New Reporting Developments	<ul style="list-style-type: none">• Revenue (New Section PS 3400)
New Assurance Developments	<ul style="list-style-type: none">• Group Audits (Amendments to CAS 600)

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

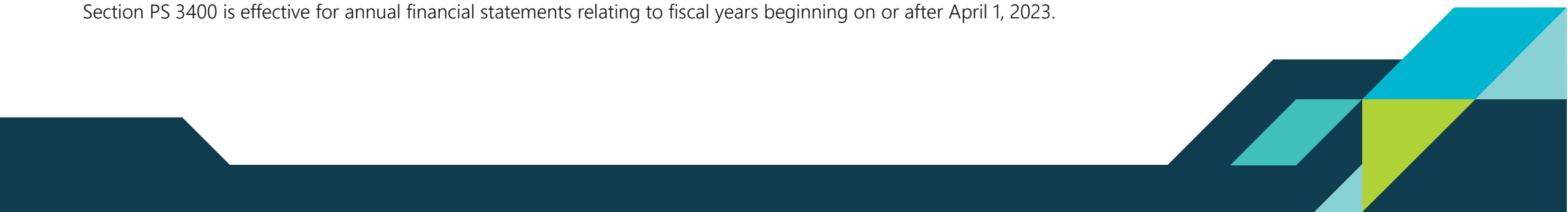
Revenue (New Section PS 3400)

In November 2018, Section PS 3400 Revenue was included in the CPA Canada Public Sector Accounting Handbook. Section PS 3400 establishes standards on how to account for and report on revenue by distinguishing between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. The main features of this Section are as follows:

- Performance obligations are enforceable promises to provide specific goods or services to a specific payor.
- Performance obligations can be satisfied at a point in time or over a period of time.
- The new standard outlines five indicators to determine if the revenue would be recognized over a period of time.
- Revenue from a transaction with a performance obligation(s) is recognized when, or as, the entity has satisfied the performance obligation(s).
- Revenue from transactions with no performance obligation is recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event that gives rise to a claim of economic resources has occurred.

Further editorial changes have also been made to other standards as a result of the issuance of PS 3400.

Section PS 3400 is effective for annual financial statements relating to fiscal years beginning on or after April 1, 2023.



Key Changes and Developments

New Assurance Developments:

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.

Key Changes and Developments

Group Audits (Amendments to CAS 600) - continued

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

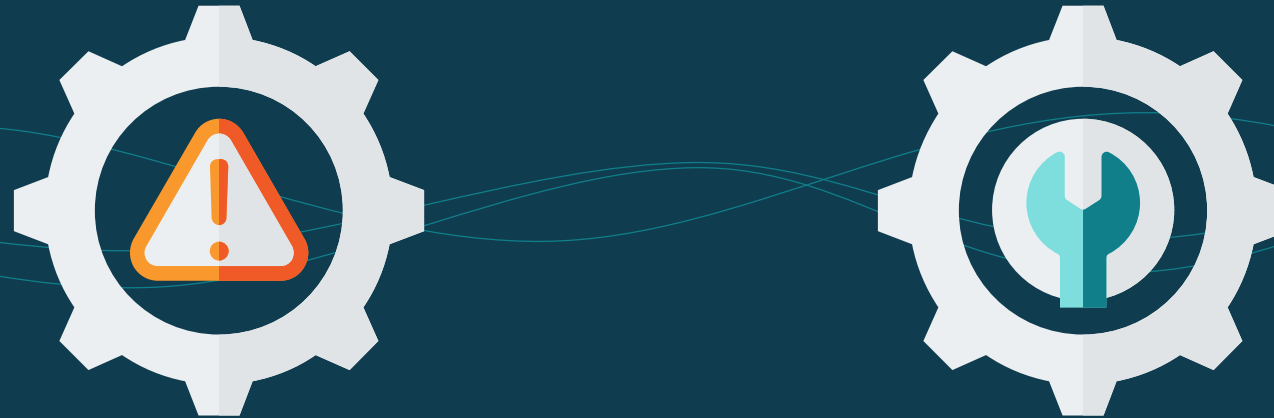
CAS 700 Forming an Opinion and Reporting on Financial Statements

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.

What to expect for the upcoming audit:

- Additional inquiries about the group structure and the internal control environment of the components (e.g., commonality of personnel, IT applications, control activities)
- The scope of the group audit might have changed upon implementation. New components may have been identified and which components are scoped into the audit may have changed.
- If component auditors are performing work, we will have more involvement in the direction, supervision, and review of their work.

Risk Assessment



Based on the preliminary risk assessment procedures performed, we identified the following significant and high risks. 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
<p>Management override of controls Presumed risk of material misstatement due to fraud as per CAS 240</p>	<p>To respond to the overall risk of material misstatement due to fraud regarding management's override of controls, we perform the following procedures:</p> <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

Risk Assessment



Significant Risk Area

User charges

There is a presumed fraud risk related to revenue recognition

Proposed Audit Response

We perform testing on revenues on a sample basis, tracing items to the invoice and to subsequent bank receipt, to ensure revenues have occurred and recorded accurately.

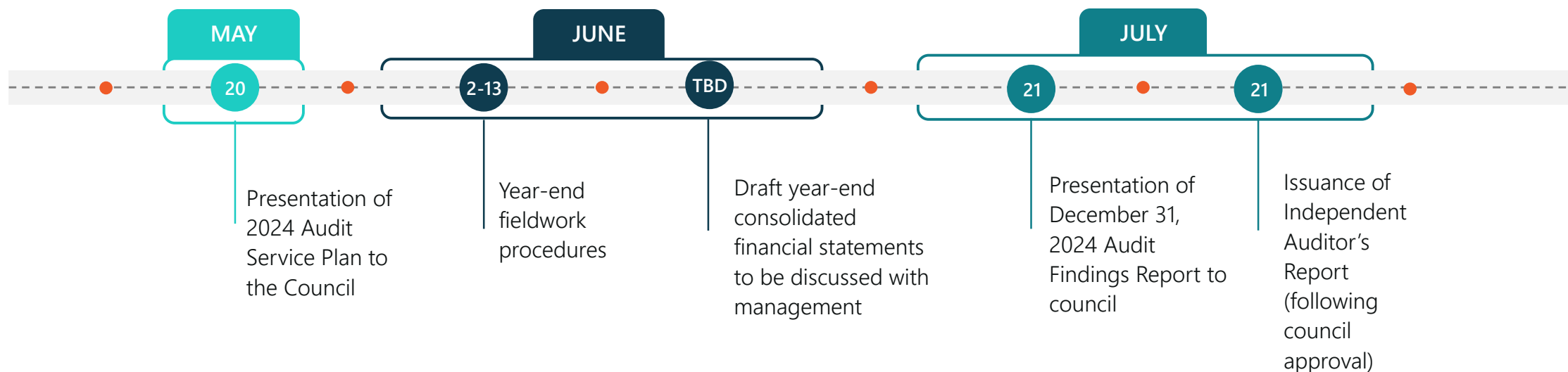
Perform journal entry testing to identify any fraudulent or inappropriate journal entries.

Inquire with management as to any suspected or actual fraud that occurred during the year.

Maintain professional skepticism throughout the audit.

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:



MNP's Audit Process

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

The Council is responsible for approval of the consolidated financial statements and Municipality policies, and for monitoring management's performance. The Council should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. The 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. More detailed discussion about MNP's audit process is provided in **Appendix A**.

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.

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 Municipality;
- Changes within the organization, management or accounting systems; and
- Concerns expressed by management.

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.



Materiality for the current is detailed on the following page.

Audit Materiality

2024
CY PLANNING
MATERIALITY
\$2,400,000



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

Group Audit

Other Component Auditors

As group auditor, we are responsible for obtaining an understanding of Municipality's components and their environments sufficient to identify those components that are significant due to either component financial benchmarks relative to the group, because it includes risks of material misstatement, or due to other factors. Professional standards require that we communicate the following information to you in relation to the group audit.

We have determined for the current year that Lake Huron Area Primary Water Supply System is in-scope due to the risk of material misstatement with respect to certain asset balances for which we will test these amounts separately. The Strathroy-Caradoc Housing Corporation are in-scope due to risk of material misstatement with respect to revenues and expenses. We intend to perform substantive procedures on other certain balances material to the Group. For efficiency purposes, we have decided to utilize the component auditor responsible for the stand-alone audit of the Lake Huron Area Primary Water Supply System.



Lake Huron Area Primary Water Supply System

Component Auditor
KPMG LLP

Type Of Work To Be Performed On The Financial Information Of The Component

We intend to use KPMG LLP to perform a targeted scope audit which will contain specific audit procedures on asset accounts.

Group Engagement Team's Involvement In Work To Be Performed

We intend to review the work of the component auditor for the asset accounts in scope and be in constant communication with the component auditor on status and work performed.

The Strathroy-Caradoc Housing Corporation

Type Of Work To Be Performed On The Financial Information Of The Component

We intend to perform a full scope audit of the component.

Group Engagement Team's Involvement In Work To Be Performed

The group engagement team will perform a full scope audit of the component.

Control Reliance

For the December 31, 2024 audit, we are planning to place low reliance on the Municipality's controls. This level of reliance 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.

Although we will provide the 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.

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 Municipality's controls will not be sufficient to express an opinion as to their effectiveness or efficiency.

Audit Team

Team member continuity is important in developing a solid relationship with the Municipality, as well as to understanding your business, risks and processes. We also know team member turnover results in lost knowledge. While some team member transition likely is inevitable, we work at reducing this through our promoting practices, learning and training, working closely with team members on career growth and development, and valuing our professionals.

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

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



Ashley Didone, CPA, CA
Engagement Partner

Ashley.didone@mnp.ca



Neila Salkic, CPA
Manager

Neila.salkic@mnp.ca



Dino Economou, CPA, CA
Senior Manager

Dino.economou@mnp.ca



Julia Aubertin, CPA
Designated Professional

Julia.aubertin@mnp.ca



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	ESTIMATE
Base audit fee	\$32,000 plus HST and disbursements

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.



Auditor Independence

An essential aspect of all our services to the Municipality is an independent viewpoint, which recognizes that our responsibilities are to the shareholders. While the concept of independence demands a questioning and objective attitude in conducting our audit, it also requires the absence of financial or other interests in the Municipality. In accordance with our firm's policy, and the Code of Professional Conduct, which govern our profession, neither MNP nor any of its team members assigned to the engagement or any of its partners, are permitted to have any involvement in or relationship with the Municipality that would impair independence or give that appearance. As auditors, we subscribe to the highest standards and are required to discuss the auditor's independence with the Council on an annual basis. Under the standard an auditor shall:

- Disclose to, the Council in writing, all relationships between the auditor and the Municipality that in the auditor's professional judgment may reasonably be thought to bear on our independence;
- Confirm in writing that, in its professional judgment, MNP is independent within the meaning of the Code of Professional Conduct of the Chartered Professional Accountants of Ontario and,
- Discuss the auditor's independence with the Council.

During the course of the audit, we will communicate any significant new matters that come to our attention that, in our professional judgment, may reasonably be thought to bear on our independence. At the completion of our audit, we will reconfirm our independence.

MNP Insights

We've learned a few things over the years

— and we want to share these experiences and ideas with you. What should Councils and boards be thinking about in 2025? Coming out of COVID-19 and high inflation, we continue to be in an ever-evolving regulatory landscape and it continues to be crucial for organizations to stay ahead of key issues that can impact their operations and strategic decisions. This publication aims to provide you with valuable insights on some of the most pressing topics in the auditing and business landscape today.

In this ever-changing environment, it is essential for Councils and boards to be well-informed and proactive. We hope this document serves as a valuable resource as you navigate the challenges and opportunities ahead in 2025.

Interested in more? Check out MNP Insights at www.mnp.ca/en/insights for industry guidance, business insights, and more.

Cybersecurity

Organizations understand that cyberattacks are a critical risk to the business, not only affecting daily operations, but causing long term damage to productivity, profitability, and their brand. The attack surface of an organization has never been higher - with additional third-party service providers, outsourcers, the proliferation of data in the cloud, the shadow use of not only IT but also data and AI. Organizations must prepare and secure a foundation for new data security, enhanced cyber insurance and compliance requirements, as well as privacy legislation.

Questions to consider asking management include the following:

- Have you performed an Insider Risk Threat Assessment?
- What compliance requirements are applicable to us and our data?
- Where is our data? Who has access to that data?
- Are we prepared for the increased sophistication of threat actors leveraging AI toolsets?
- Have we considered assessing our vulnerability to insider threat?
- Are we prepared to deal with a data compromise?

For more MNP Cybersecurity insights, visit our online resource [here](#).



ESG

Recent Developments

Over the past year, there have been significant developments in ESG legislation, including reporting, in Canada and globally. The below list is not exhaustive, and entities should remain informed of new regulations and legislation affecting their business. The follow pages describe the below regulations.

Canadian Specific Operations

- Canadian Sustainability Disclosure Standards: CSDS 1 & 2
- Canadian Standard on Sustainability Assurance (CSSA) 5000
- Bill C-59, amendments to *Competition Act* of Canada (Greenwashing)
- Increasing Carbon Price
- Bill S-211
- OFSI Guideline B-15: Climate-related reporting for domestic systemically important banks and Internationally Active Insurance Groups



Global Considerations

- Carbon Border Adjustment Mechanism (CBAM)
- European Sustainability Reporting Standards (ESRS)
- SEC Climate Disclosure Rule

These national and global requirements will cascade down supply chains and across value chains as expectations for reporting extends to those whose entities are in business with. Your business may not be required to be report directly due to the above regulations, but you may need to report through your relationship with businesses that are required to report.

How MNP can help

We are seeing more supply chain driven requests for Scope 1 and Scope 2 GHG emission information and more entities wanting to understand their susceptibility to climate risks. If you have questions, we can help.

ESG

Canadian Specific Operations

Canadian Sustainability Disclosure Standards (CSDS)

- In March 2024, the Canadian Sustainability Standards Board (CSSB) issued Exposure Drafts of the proposed CSDS 1, *General Requirements for Disclosure of Sustainability-related Financial Information*, and CSDS 2, *Climate-related Disclosures*, which are mostly aligned to the International Sustainability Standards Board (ISSB) sustainability standards.
- Upon finalization, CSDS 1 and 2 will be available for voluntary adoption and there will be no mandatory reporting requirements under the standards until the Canadian Securities Administrators (CSA) introduce their final sustainability disclosure requirements.
- The CSA has indicated that they are going to be reviewing the results of the CSSB's public consultation period on the applicability of CSDS 1 and 2 to Canadian capital markets.

Canadian Standard on Sustainability Assurance (CSSA) 5000

- In September 2023, the Auditing and Assurance Standards Board (AASB) issued their Exposure Draft for CSSA 5000, *General Requirements for Sustainability Assurance Engagements*, which will be the overarching standard for sustainability reporting assurance in Canada.
- The final standard is expected to be finalized and approved by the end of 2024. The timing of any assurance requirements over sustainability information is uncertain but it is expected that there will be transitional reliefs to allow for effective implementation.

Bill S-211, the *Fighting Against Forced Labour and Child Labour in Supply Chains Act*

- While the first year of reporting has been completed, entities may be expected to build on the initial frameworks and processes established and demonstrate continuous improvement in the second year of reporting. There is a growing need for transparency in Canadian Municipality supply chains, on a global basis, and Canadian entities will not be exempt from holding third parties accountable to these new standards.

ESG

Canadian Specific Operations

Bill C-59

- Bill C-59, which amended the *Competition Act* of Canada on June 20, 2024, introduces significant measures targeting greenwashing. The law mandates that environmental claims made by companies must be substantiated with adequate and proper tests or internationally recognized methodologies. This includes both explicit and implied claims about a product or business's environmental benefits.
- If these claims are found unsubstantiated, companies can face hefty penalties.
- Additionally, starting in June 2025, private parties can take legal action against companies for greenwashing, allowing climate advocacy groups direct access to the Competition Tribunal.

Increasing Carbon Price

- Starting April 1, 2024, Canada's carbon price increased from \$65 to \$80 per ton. Subsequent years will see an increase of \$15 until the price reaches \$170 per ton by 2030. This pricing mechanism, established under the Greenhouse Gas Pollution Pricing Act, aims to reduce greenhouse gas emissions by incentivizing businesses and individuals to adopt cleaner energy sources and technologies.

Office of Superintendent of Financial Institutions (OSFI) Guideline B-15

- Issued in March 2023, these guidelines require climate-related reporting on governance, strategy, risk management, metrics and targets for domestic systemically important banks (D-SIBs) and Internationally Active Insurance Groups (IAIGs) headquartered in Canada by their 2024 fiscal year-ends. All other institutions regulated by OSFI will be required to report under Guideline B-15 by their 2025 fiscal year end.
- We expect that these requirements will result in downstream requests from financial institutions regarding a customer's greenhouse gas emissions in order to access capital.

APPENDICES

Appendix A MNP 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.

The Council is responsible for approval of the financial statements and Municipality policies, and for monitoring management's performance. The Council should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. The 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.

Appendix A MNP Audit Process

Audit Procedures

As part of our planning process, we will also undertake to inform the 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 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 Municipality's control environment, and management's competence and integrity.

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 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 financial statements;
- Assessing the appropriateness and consistency of accounting principles used and their application;
- 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 financial statements.

Appendix A MNP Audit Process

Inherent Limitations in the Auditing Process

An auditor cannot obtain absolute assurance that material misstatements in the 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 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 noncompliance 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 the Council with respect to identified:

- Misstatements resulting in errors, other than clearly trivial misstatements;
- 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 financial statements taken as a whole.

Required Communication with Those Charged with Governance

Recognizing the importance of effective two-way communication in an audit of financial statements, we wish to highlight areas of required communication between our audit team and those charged with governance included with our audit service plan.



MNP



Wherever business takes you

[MNP.ca](https://www.mnp.ca)

PRAXITY[™]
Empowering Business Globally