

**Baker Tilly REO LLP**  
211 Hincks Street  
Pembroke, ON  
Canada K8A 4N7

**D:** +1 613.735.3193  
**F:** +1 613.735.2869

pembroke@bakertilly.ca  
[www.bakertilly.ca](http://www.bakertilly.ca)

December 18, 2024  
Confidential

The Corporation of the Town of Deep River  
100 Deep River Road  
P.O. Box 400  
Deep River Ontario K0J 1P0

Attention: Members of the Audit Committee

Dear Sir / Madam:

**Re: Audit of the Financial Statements of The Corporation of the Town of Deep River**

We have been engaged to express an audit opinion on the financial statements of The Corporation of the Town of Deep River ("the company") for the year ended December 31, 2023. We have substantially completed our audit and are pleased to report on the following items.

The purpose of this report is to summarize certain aspects of the audit that we believe to be of interest to the Audit Committee. This report should be read in conjunction with the final financial statements and our report thereon.

**Auditor Independence**

CAS require communications with audit committees, or other appropriate parties responsible for governance, at least annually, regarding all relationships between the company and our Firm that, in our professional judgement, may reasonably be thought to bear on our independence.

Through our planning process, we identify any potential independence threats and communicate any concerns we identify. The company, management and the Audit Committee have a proactive role in this process, and are responsible for understanding the independence requirements applicable to the company and its auditor. You must also bring to our attention any changes in the threshold status of the company, any concerns you may have, or any knowledge of situations or relationships between the company, management, personnel (acting in an oversight or financial reporting role) and our Firm, its partners/principals and audit team personnel that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional 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;

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- (d) economic dependence on a client; and
- (e) provision of services in addition to the audit engagement.

In accordance with our professional requirements, we advise you that we are not aware of any relationships between the company and our Firm that, in our professional judgement, may reasonably be thought to bear on our independence.

Accordingly, we hereby confirm that our audit engagement team, our Firm and the other Baker Tilly Canada offices are independent with respect to the company within the meaning of the Code of Professional Conduct Rule 204 of the Chartered Professional Accountants of Ontario.

### **Our Responsibilities as Auditor**

As stated in the engagement letter, our responsibility as auditor of your company is to express an opinion on whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the company in accordance with Canadian generally accepted accounting principles.

An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.

Our audit includes:

- Assessing the risk that the financial statements may contain material misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used, and their application;
- Assessing the significant estimates made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern; and
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of our audit, we will obtain a sufficient understanding of the business and internal control structure of the company to plan the audit. This will include management's assessment of:

- The risk that the financial statements may be materially misstated as a result of fraud and error; and
- The internal controls put in place by management to address such risks.

The engagement team must undertake a documented planning process prior to commencement of the audit to identify concerns, address independence considerations, assess the engagement team requirements, and plan the audit work and timing.

An audit does not relieve management or those responsible for governance of their responsibilities for the preparation of the company's financial statements.

## **Audit Committee Members' Responsibilities**

The Audit Committee's role is to act in an objective, independent capacity as a liaison between the auditor, management, and the board of directors to ensure the auditors have a facility to consider and discuss governance and audit issues with parties not directly responsible for operations.

The Audit Committee's responsibilities include:

- Being available to assist and provide direction in the audit planning process when and where appropriate;
- Meeting with the auditors as necessary and prior to release and approval of financial statements to review audit, disclosure and compliance issues;
- Where necessary, reviewing matters raised by the auditor with appropriate levels of management, and reporting back to the auditors their findings;
- Making known to the auditor any issues of disclosure, corporate governance, fraud or illegal acts, non-compliance with laws or regulatory requirements that are known to them, where such matters may impact the financial statements or the Independent Auditors' Report;
- Providing guidance and direction to the auditor on any additional work the auditor feels should be undertaken in response to issues raised or concerns expressed;
- Making such enquiries as appropriate into the findings of the auditor with respect to corporate governance, management conduct, cooperation, information flow and systems of internal controls;
- Reviewing the draft financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and approve same to be passed to directors for approval.

## **Audit Approach**

Outlined below are certain aspects of our audit approach which are intended to help you in discharging your oversight responsibilities. Our general approach to the audit of The Corporation of the Town of Deep River is to assess the risks of material misstatement in the financial statements and then respond by designing audit procedures.

## **Independent Auditors' Report**

We anticipate that our Independent Auditors' Report will be issued without modification.

Our Independent Auditors' Report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the financial statements, including evidence that all the statements and disclosures that comprise the financial statements have been prepared and the Board has approved the financial statements.

## **Illegal Acts, Fraud, Intentional Misstatements and Errors**

Our auditing procedures, including tests of your accounting records, were limited to those considered necessary in the circumstances and will not necessarily disclose all illegal acts should any exist. Under CAS, we consider the company's control environment, governance structure, circumstances encountered during the audit and the potential likelihood of fraud and illegal acts occurring.

These procedures are not designed to test for fraudulent or illegal acts, nor will they necessarily detect such acts or recognize them as such, even if the effect on the financial statements is material. However, should we become aware that an illegal or possible illegal act or an act of fraud may have occurred, other than one considered clearly inconsequential, we will communicate directly to the Audit Committee.

It is management's responsibility to detect and prevent illegal actions. If such acts are discovered or the Audit Committee members become aware of circumstances under which the company may have been involved in fraudulent, illegal or regulatory non-compliance situations, such circumstances must be disclosed to us.

Testing during our audit did not reveal any illegal, improper or questionable payments or acts, nor any acts committed with the intent to deceive, involving either misappropriation of assets or misrepresentation of assets or misrepresentation of financial information.

### **Related Party Transactions**

During our audit, we conduct various tests and procedures to identify transactions considered to involve related parties. Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Related parties also include management, directors and their immediate family members and companies with which these individuals have an economic interest.

All related party transactions that were identified during the audit have been represented by management to have been disclosed in the notes to financial statements, recorded in accordance with Canadian generally accepted accounting principles, and have been reviewed with you.

Management has advised that no other related party transactions have occurred that have not been disclosed to us. The Audit Committee is required to advise us if they are aware of or suspect any other related party transactions have occurred which have not been disclosed in the financial statements.

### **Significant Accounting Principles and Policies**

Management is responsible for the appropriate selection and application of accounting policies. Our role is to review the appropriateness and application as part of our audit. The significant accounting principles and policies are disclosed in the notes to the financial statements.

The accounting policies adopted may be acceptable policies under Canadian generally accepted accounting principles; however, alternative policies may also be acceptable under Canadian generally accepted accounting principles. The company and the Audit Committee have a responsibility to not adopt extreme or inappropriate interpretations of Canadian generally accepted accounting principles that may have inappropriate or misleading results. Alternative policies, if adopted, may produce significant changes in the reported results of the operations, financial position and disclosures of the company.

The Audit Committee has a responsibility to review the accounting policies adopted by the company, and where alternative policies are available, make determinations as to the most appropriate policies to be adopted in the circumstances. If members of the Audit Committee believe that the adoption or change in accounting policy may produce an inappropriate or misleading result in financial reporting or disclosure, this concern must be discussed with management and us.

There were no new accounting policies adopted or changes to the application of accounting policies of the company during the year.

### **Accounting Estimates**

Management is responsible for the accounting estimates included in the financial statements. Estimates and the related judgements and assumptions are based on management's knowledge of the business and past experience about current and future events.

Our responsibility as auditors is to obtain sufficient appropriate evidence to provide reasonable assurance that management's accounting estimates are reasonable within the context of the financial statements as a whole. An audit includes performing appropriate procedures to verify the:

- Calculation of accounting estimates;

- Analysing of key factors such as underlying management assumptions;
- Materiality of estimates individually and in the aggregate in relation to the financial statements as a whole;
- Estimate's sensitivity to variation and deviation from historical patterns;
- Estimate's consistency with the entity's business plans; and
- Other audit evidence.

### **Risk-based**

Our risk-based approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit work on higher risk areas that have a higher risk of being materially misstated.

### **Key Audit Matters**

There are no key audit matters to be communicated in the auditor's report.

### **Materiality**

Materiality is used throughout the audit and in particular when:

- (a) Identifying and assessing risk of material misstatement;
- (b) Determining the nature, timing and extent of further audit procedures; and
- (c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming an opinion on the auditors' report.

Materiality is defined as:

*Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgement in the particular circumstances.*

### **Audit Procedures**

The objective of the tests of controls is to evaluate whether certain controls operated effectively. The objective of the tests of details is to detect material misstatements in the account balances and transaction streams. Substantive analytical procedures are used to identify differences between recorded amounts and predictable expectations in larger volumes of transactions over time.

In response to our risk assessment and based on our understanding of internal controls, we adopted a combined approach for the audit.

### **Evaluation of Internal Controls**

Audits include a review and evaluation of the system of internal controls to assist in determining the level of reliance that may or should be placed on the system in assessing the nature and extent of audit procedures to be undertaken.

During the course of our audit, we encountered the following specific internal control matters that we wish to bring to your attention, these have been outlined in the management letter attached.

### **Significant Matters Discussed with Management**

There were no significant matters arising from the audit discussed with management.

### **Significant Misstatements**

In the course of our audit, we have not found any material misstatements or unadjusted items that, in aggregate, exceed materiality thresholds established for the audit, nor have we found significant misstatements that would likely cause future financial statements to be materially misstated.

### **Uncorrected Misstatements**

In the course of our audit, we have aggregated uncorrected financial statement misstatements which are summarized in the accompanying schedule. Management has deemed the effects of these misstatements to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. To date, management has not agreed to correct these misstatements. Under CAS, we are required to request that the Audit Committee approves the correction of these misstatements.

### **Significant Unusual Transactions**

We are not aware of any significant transactions entered into by the company that you should be informed about.

### **Disagreements with Management**

We are required to communicate any disagreements with management, whether or not resolved, about matters that are individually or in aggregate significant to the company's financial statements or auditors' report. Disagreements may arise over:

- Selection or application of accounting principles;
- Assumptions and related judgements for accounting estimates;
- Financial statement disclosures;
- Scope of the audit: or
- Wording of the auditors' report.

In the course of our audit, we did not have any significant disagreements with management, nor were we under any significant time pressures or poor working conditions. We are not aware of any cause for concern as to management's attitude, competence or credibility with respect to matters affecting the financial statements.

### **Management Letter**

We will be submitting to management a letter on internal controls and any other matters that we feel should be brought to the attention of management. We are attaching draft points for your perusal.

### **In Closing**

We wish to express our appreciation for the co-operation we received during the audit from the company's management.

Should any member of the Audit Committee wish to discuss or review any matter addressed in this letter or any other matters related to financial reporting, please do not hesitate to contact us at any time.

Yours truly,

**BAKER TILLY REO LLP**

Chartered Professional Accountants

A handwritten signature in blue ink that reads "Rod Sinclair". The signature is written in a cursive style with a prominent initial "R".

Rod Sinclair, CPA, CA  
Partner  
Phone: 613-735-3193

**The Corporation of the Town of Deep River  
Schedule of Likely Aggregate Misstatements  
December 31, 2023**

**H25 - 1**

<b>Preparer</b> KAH 11-8-2024	<b>Reviewer</b>	<b>Partner</b> RJS 12-8-2024
<b>EQCR</b> DMR 12-12-2024	-	-

**Overall Materiality**

**Specific Materiality**

<u>Preliminary overall:</u>	<u>\$250,000</u>
<u>Preliminary performance:</u>	<u>\$175,000</u>
<u>Dollar threshold for clearly trivial errors</u>	<u>\$12,500</u>

Select from available options below:  
Link to materiality guideline (P75)

**Proposed Adjustments Dr (Cr)**

**Statement of Income**

**Balance Sheet**

	Description of Misstatement	File Ref.	Identified Misstatements	Likely Misstatements	Proposed Adjustments Dr (Cr)			Type	C
					Assets	Liabilities	Opening Equity		
1	Difference between o/s bank items per client and per audit work	<u>A.2</u>	(15,328)	(15,328)	15,328	-	-	CY	
2	Unidentified misc. deposits posted by treasurer to misc revenue to balance bank reconciliation monthly -unable to identify proper source of revenues. Maximum potential impact on F/S posted to ensure below PM threshold.	<u>165.1A</u>	151,082	151,082	(151,082)	-	-	CY	
3	Road dispositions in PY and CY to be recorded in 2024 per Elaine	<u>U.7-10</u>	31,654	31,654	(31,654)	-	-	R	



**The Corporation of the Town of Deep River  
 Schedule of Likely Aggregate Misstatements  
 December 31, 2023**

**H25 - 2**

Preparer	Reviewer	Partner
KAH 11-8-2024		RJS 12-8-2024
<b>EQCR</b>	-	-
DMR 12-12-2024		

a) Totals	167,408	(167,408)	-	-
b) Misstatements corrected by management	-	-	-	-
c) Likely aggregate misstatements net of corrections (a - b)	167,408	(167,408)	-	-
d) Effect of unadjusted misstatements from previous year's reversing errors	-	-	-	-
e) Aggregate likely misstatements (c + d)	167,408	(167,408)	-	-
f) Final overall <u>materiality</u>	250,000	250,000	250,000	250,000
g) Amount remaining for further possible misstatement (f - e)	82,592	82,592	250,000	250,000
h) Total of reversing errors (to be carried forward to next year)	31,654	(31,654)	-	-

**Comments:**

departmental allocation of revenues affected because all misc revenues allocated to general when could be other departments.

**The Corporation of the Town of Deep River  
 Schedule of Likely Aggregate Misstatements  
 December 31, 2023**

H25 - 3

<b>Preparer</b> KAH 11-8-2024	<b>Reviewer</b>	<b>Partner</b> RJS 12-8-2024
<b>EQCR</b> DMR 12-12-2024	-	-

**Summary of Classification Errors**

Description of Misstatement	File Ref	Error Amount	Working Capital	Working Capital Ratio	Income Statement	Effect On	
						Other (describe)	Rev
Credit balances on tax accounts not reallocated to A/P	D. 2	26,095	-		-	Minimal impact on classification between A/R and A/P. No impact on surplus. Not considered significant.	

**Summary of Omissions and Other Errors in Presentation and Disclosure**

**Evaluation of Misstatements**

	Initials	Date	Comments
1. Update overall and performance materiality for any revisions required during the audit <u>P75</u>	KAH	11-8-24	
2. Consider specific materiality, where applicable, in evaluation of misstatements.	KAH	11-8-24	
3. Ask management to correct all identified misstatements and summarize management's reasoning as to why any misstatements have not been corrected.	KAH	11-8-24	1. timing diff -reverses in Jan/24. 2. unable to identify source of misc income to correct. Issue fwd to management letter 3. Elaine didn't want to correct late in audit work & minimal impact on NBV. Will be corrected in 2024 and going fwd.

**The Corporation of the Town of Deep River  
Schedule of Likely Aggregate Misstatements**

**December 31, 2023**

**H25 - 4**

Preparer	Reviewer	Partner
KAH 11-8-2024		RJS 12-8-2024
<b>EQCR</b> DMR 12-12-2024	-	-

- |  |     |          |   |
|--|-----|----------|---|
| 4. Describe any patterns in the misstatements that might indicate possible management bias or possible fraud.  | KAH | 11-8-24  | Client posts monthly entries to reconcile bank when there are unknown deposit in excess of recorded revenues. Recreation revenues system not picking up all revenues per discussion with Elaine. No evidence of bias but unable to confirm source of revenues do affects departmental revenues since misc revenue is general admin dept and possible recreation revenue or other dept revenues understated. |
| 5. Where individual material misstatements that have not been corrected exist, explain why the offset by other misstatements are appropriate.                        | KAH | 11-8-24  |   |
| 6. Describe the effect of any classification misstatements on areas such as debt or other contractual covenants, individual line items or subtotals, and key ratios. | KAH | 11-8-24  | No impact on covenants. Allocation is between depts for misc revenues.  |
| 7. Describe any additional work required when uncorrected misstatements are close to exceeding materiality.  | KAH | 12-16-24 | N/A   |

**Conclusion: The financial statements are not materially misstated.**