

Baker Tilly SGB LLP
7 Victoria Street South
P. O. Box 129
Walkerton, ON
Canada, N0G 2V0

D: + 1 519-881-2100
1 800-263-4088
F: + 1 519-881-2602

walkerton@bakertilly.ca
www.bakertilly.ca

Wednesday, November 24, 2021

Corporation of the Municipality of Brockton
P.O. Box 68
Walkerton, Ontario, N0G 2V0

Re: Audit of the consolidated Financial Statements of Corporation of the Municipality of Brockton

Dear Sirs and Mesdames:

This report is intended solely for the use of the Council and should not be distributed without our prior consent. We accept no responsibility to a third party who uses this communication.

We have been engaged to express an audit opinion on the consolidated financial statements of Corporation of the Municipality of Brockton ("the municipality") for the year ended December 31, 2021. Canadian Auditing Standards ("CAS") require that we communicate the following information with you in relation to your audit.

Management is responsible for establishing and maintaining an adequate internal control structure and procedures for financial reporting. This includes the design and maintenance of accounting records, recording transactions, selecting and applying accounting policies, safeguarding of assets and preventing and detecting fraud and error.

Auditor Independence

We will, through our planning process, identify any potential independence threats and will communicate any concerns we identify. The municipality, management and the Council have a proactive role in this process, and are responsible for understanding the independence requirements applicable to the municipality and its auditor. You must bring to our attention any concerns you may have, or any knowledge of situations or relationships between the municipality, 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;
- (d) Economic dependence on a client; and
- (e) Provision of services in addition to the audit engagement.

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In accordance with our professional requirements, we advise you that we are not aware of any relationships between the municipality 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 municipality 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 municipality is to express an opinion on whether the consolidated financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the municipality in accordance with Canadian Public Sector Accounting Standards.

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 municipality's ability to continue as a going concern; and
- Evaluating the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 municipality 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. It may be necessary to contact members of the Council if significant matters arise from planning procedures.

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

Council Members' Responsibilities

The Council'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 auditor has a facility to consider and discuss governance and audit issues with parties not directly responsible for operations.

The Council's responsibilities include:

- Being available to assist and provide direction in the audit planning process when and where appropriate;
- Meeting with the auditor 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 auditor 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 Auditor's 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; and
- Reviewing the draft financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and approving same to be passed to Council 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 Corporation of the Municipality of Brockton is to assess the risks of material misstatement in the financial statements and then respond by designing audit procedures.

Illegal Acts, Fraud, Intentional Misstatements and Errors

Our auditing procedures, including tests of your accounting records, will be limited to those considered necessary in the circumstances and will not necessarily disclose all illegal acts, fraud, intentional misstatements or errors should any exist. We will conduct the audit under CAS, which include procedures to consider (based on the control environment, governance structure and circumstances encountered during the audit), 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 of its consequences 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 this information directly to the Council.

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

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.

We will ensure that any related party transactions that are identified during the audit have been represented by management to have been disclosed in the notes to financial statements, recorded in accordance with Canadian Public Sector Accounting Standards, and have been reviewed with you. Management is required to advise us if any related party transactions have occurred that have not been disclosed to us. The Council 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

The municipality's financial statements will be prepared by management using various accounting principles, which have been incorporated into the municipality's accounting policies and disclosed in the notes to the financial statements. Where accounting policies have changed from one period to the next, such changes will be noted and the effect of these changes will be disclosed.

The accounting policies adopted may be acceptable policies under Canadian Public Sector Accounting Standards; however, alternative policies may also be acceptable under Canadian Public Sector Accounting Standards. The municipality and the Council have a responsibility to not adopt extreme or inappropriate interpretations of Canadian Public Sector Accounting Standards 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 municipality.

The Council has a responsibility to review the accounting policies adopted by the municipality, and where alternative policies are available, make determinations as to the most appropriate policies to be adopted in the circumstances. If members of the Council are concerned that the adoption or change of an accounting policy may produce an inappropriate or misleading result in financial reporting or disclosure, this concern must be discussed with management and us. If the Council believes that a policy or policies adopted are inappropriate or produce a misleading result in the circumstances, these concerns should be discussed with us directly, either privately or in Council meetings.

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 areas that have a higher risk of being materially misstated.

Materiality

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.

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 Auditor's Report.

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 will use a substantive approach for the audit.

Should any member of the Council 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 very truly,

A handwritten signature in black ink that reads "Baker Tilly SGB". The signature is written in a cursive, flowing style.

Baker Tilly SGB LLP
Chartered Professional Accountants