



Muskoka Algonquin Healthcare

**Audit Findings Report
For the year ended March 31, 2019**

KPMG LLP

May 23, 2019

kpmg.ca/audit



The contact at KPMG in connection with this report is:

Oscar Poloni
CPA, CA, CBV
Lead Engagement Partner
Tel: (705) 669-2515
opoloni@kpmg.ca

Daniel Wereszczynsky
CPA, CA
Audit Manager
Tel: (705) 669-2555
dwereszczynsky@kpmg.ca

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Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a Member of the Audit Committee (the “Committee”), in your review of the results of our audit of the financial statements of Muskoka Algonquin Healthcare (the “Hospital”) as at and for the year ended March 31, 2019.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Changes from the Audit Plan

There have been no significant changes in our planned approach as designed by KPMG and dated January 31, 2019.

Audit risks and results

Based on our audit procedures, including discussions with management, we have not identified any significant financial reporting risks that would impact the Hospital’s financial reporting.

Adjustments and differences

We did not identify differences that remain uncorrected.

There were no corrected audit differences.

Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- Completing any required communications with the Hospital;
- Obtaining evidence of the Hospital’s approval of the financial statements.
- Obtaining the signed management representation letter.

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures.

The conclusion of our audit is set out in our draft auditors’ report attached to the draft financial statements. Our auditors’ report will be dated upon the completion of any remaining procedures.

*This Audit Findings Report should not be used for any other purpose or by anyone other than the Audit Committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Findings Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Executive summary

Audit Materiality

We determined materiality by using prior year audited revenues as a benchmark and applying 1%, resulting in a materiality of \$780,000. The audit misstatement posting threshold was set at \$39,000.

Using year-end actual revenues did not result in a significant change to the materiality level determined above.

Fraud and other risks and results

See Page 6.

We discussed with you some considerations over fraud risks as required by professional standards.

Control and other observations

As a result of our audit procedures, we have not identified any matters relating to weaknesses in the Hospital's system of internal controls or financial reporting processes.

Critical accounting estimates

Overall, we are satisfied with the reasonability of the accounting estimates taken. Accounting estimates are disclosed in Note 1 to the financial statements.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention. The significant accounting policies selected by the Hospital are presented in the notes to the financial statements. The Hospital has applied these policies consistently throughout the year ended March 31, 2019.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are in accordance with the Hospital's relevant financial reporting framework, which is Canadian public sector accounting standards.

There were no misstatements, including omissions, if any, related to disclosure or presentation items.

Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls. We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional significant risks identified.

Significant financial reporting risks	Why	Our response and significant findings
Revenue recognition	Revenue recognition has been identified as a potential audit risk due to the conditional nature of certain funding received by the Hospital, which may impact their financial statement presentation.	<p>We have tested management's calculations of revenues, including:</p> <ul style="list-style-type: none"> • Agreeing revenue to supporting documentation; • Assessing the reasonableness of revenue recognition for conditional revenue sources; and • Assessing the appropriateness of accounts receivable and accounts payable recorded at year-end. <p>Based on the results of our audit procedures, we have not identified any audit differences related to revenues, other than those that are trivial in nature.</p>
Capital assets	Capital expenditures have been identified as a potential audit risk due to the significant level of capital investment undertaken by the Hospital and the potential subjectivity with respect to whether a betterment exists.	<p>We performed the necessary audit procedures over the Hospital's tangible capital assets, including:</p> <ul style="list-style-type: none"> • Testing a sample of capital asset additions, including agreeing expenditures to supporting documentation and verifying that the expenditure represented a betterment • Ensure the appropriateness of cut-off for capital expenditures at year-end; and • Testing associated revenue for capital expenditures, including government grants and donations. <p>Based on the results of our audit procedures, we have not identified any audit differences related to capital assets.</p>
Employee related accruals	Employee-related accruals have been identified as a potential audit risk due to the quantum of the potential liability and the degree of uncertainty with respect to the determination of the liability amount.	<p>We performed the necessary audit procedures over management's estimates, including assessing the reasonableness of key assumptions and performing a retrospective review of prior year's estimates. Employee-related liabilities addressed by our audit procedures included pay equity, unsettled contracts and termination benefits.</p> <p>Based on the results of our procedures, we did not identify any audit differences with respect to employee related accruals.</p>

Fraud risks and results

We identified fraud risks for in our discussion with you in the Audit Plan.

Significant findings from the audit regarding fraud risks are as follows:

Other areas of focus	Why	Our response and significant findings
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may have the incentive to overstate in order to achieve the intended financial results and meet the requirements under the Hospital's accountability agreements.	Our audit procedures test for potential overstatement of revenues through: <ul style="list-style-type: none"> • Testing of journal entries; • Agreeing recorded revenues to supporting documentation; and • Assessing the appropriateness of management's revenue recognition assumptions. Based on the results of our audit procedures, no audit misstatements were identified.
Fraud risk from management override of controls	This is a presumed fraud risk. Management may override internal controls in order to perpetrate or conceal fraud.	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions, as well as other procedures as considered appropriate by us.
Contravention of Hospital policies and procedures	This is a potential reputational risk in the event that public funds are used for personal purposes.	We selected a sample of expense reports for members of the board as well as senior management to assess the extent of compliance with Hospital policies. We also selected a sample of procurements in order to assess instances of non-compliance with the Hospital's procurement policies. Based on the results of our review, we did not identify any instances of non-compliance with the Hospital's policies.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Hospital's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	The form, arrangement and content of the financial statements has been reviewed as part of our audit procedures as is considered to be adequate. The financial statements contain note disclosure, including continuity information, for significant financial statement items.
Application of accounting pronouncements issued but not yet effective	There were no new accounting pronouncements in the current year that had a significant impact on the Hospital's financial statements. No concerns are identified at this time regarding future implementation of accounting pronouncements.

Adjustments and differences

Adjustments and differences identified during the audit have been categorized as “Corrected adjustments” or “Uncorrected differences”. These include disclosure adjustments and differences. Professional standards require that we request of management and the audit committee that all identified differences be corrected. We have already made this request of management.

Corrected adjustments

No adjustments were made to the internal financial records of the Hospital as a result of our audit procedures.

Uncorrected differences

Based on the results of our audit procedures, we have not identified any uncorrected differences considered to be other than clearly trivial.

Control observations

In accordance with professional standards, we are required to communicate to the Audit Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in internal control over financial reporting.

Based on the results of our audit procedures, we did not identify any significant deficiencies in internal controls over financial reporting.

Appendices

Appendix 1: Required communications

Appendix 2: Audit Quality and Risk Management

Appendix 3: Background and professional standards

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report [attached to the draft financial statements / as attached]
- **Management representation letter** – In accordance with professional standards, copies of the management representation letter are provided to the Finance and Audit Committee.
- **CPAB Big Four Firm Public Report (November 2017)** – Please refer to <http://www.cpab-crc.ca/Documents/News%20and%20Publications/2017%20Big%20Four%20Report%20EN.pdf>

Appendix 2: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards. Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit our [Audit Quality Resources page](#) for more information including access to our audit quality report, [Audit quality: Our hands-on process](#).

- Other controls include:
 - Before the firm issues its audit report, the Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
 - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.
- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.



- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
 - Assignment based on skills and experience;
 - Rotation of partners;
 - Performance evaluation;
 - Development and training; and
 - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 3: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

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