

# Audit Findings Report

For the Year ended March 31, 2018

Annual General Meeting  
June 25, 2018



# Muskoka Algonquin Healthcare

*KPMG LLP*

**Audit Findings Report  
For the year ended March 31, 2018**

May 24, 2018

[kpmg.ca/audit](http://kpmg.ca/audit)



The contacts at KPMG in connection with this report are:

Oscar Poloni  
CPA, CA, CBV  
Lead Engagement Partner  
Tel: (705) 669-2515  
opoloni@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, 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, 2018.

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.

## 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.

Corrected audit differences are identified in our representation letter.

## 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.

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# Executive summary

## Audit Materiality

We determined materiality by using prior year audited revenues as a benchmark and applying 1%, resulting in a materiality of \$760,000. The audit misstatement posting threshold was set at \$38,000.

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

## Fraud risks and results

See Page 7.

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, 2018.

## 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 (i) conditional nature of funding under the Province's HSFR mechanism; and (ii) the potential incentive for management to overstate revenue to achieve the Hospital's accountability commitments.	<p>We have tested management's calculations of revenues, including:</p> <ul style="list-style-type: none"> <li>• Confirming Provincial funding received and identifying conditional and unconditional funding</li> <li>• Verifying the number of QBP procedures performed, which factor into the amount of revenue recognized</li> <li>• Verifying the rate per procedure for QBP and priority program revenues</li> <li>• Agreeing one-time funding to Provincial funding letters and verifying the basis for revenue recognition</li> <li>• Verifying the amount of revenue recognized for specifically funded (other votes) programs based on expenditures incurred</li> <li>• Reviewing management's assessment of the disposition of opening revenue items (receivable, payable, deferred)</li> <li>• Performing substantive analytical procedures on other revenue sources</li> </ul> <p>Based on the results of our audit procedures, we have not identified any audit differences related to revenues.</p>
Capital assets	Capital expenditures have been identified as a potential audit risk due to (i) the significance of capital expenditures and their associated funding; (ii) complexity associated with differentiating between a betterment and repairs and maintenance; and (iii) management's incentive to understate repairs and maintenance in order to achieve accountability commitments.	<p>We performed the necessary audit procedures over the Hospital's capital assets, including:</p> <ul style="list-style-type: none"> <li>• Testing a sample of capital asset additions, including agreeing expenditures to supporting documentation and verifying that the expenditure represented a betterment</li> <li>• Reviewing repairs and maintenance accounts to identify instances where capital expenditures may have been expensed</li> <li>• Agreeing amortization rates to the Hospital's amortization policy (OHRS guidelines) and recalculating amortization expense for a sample of capital assets</li> <li>• Assessing the appropriateness of capitalizing planning and site selection costs associated with the proposed new hospital construction project</li> <li>• Reviewing the accounting treatment of capital planning grants provided by the Ministry of Health and Long-term Care</li> </ul> <p>Based on the results of our audit procedures, we have not identified any audit differences related to capital assets.</p>

Significant financial reporting risks	Why	Our response and significant findings
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:</p> <ul style="list-style-type: none"> <li>• Grievances and arbitration</li> <li>• Unsettled contracts</li> <li>• Termination benefits, including salary continuance arrangements</li> <li>• Pay equity settlements</li> <li>• Human rights complaints</li> <li>• Liabilities under the Public Sector Labour Relations Transition Act</li> <li>• Liabilities arising under Bill 148 – Fair Workplaces, Better Jobs Act</li> </ul> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>• A retrospective review of settlements in comparison to amounts accrued in order to assess the appropriateness of the Hospital's estimates</li> <li>• Consultation with other KPMG offices to determine industry-wide practice</li> </ul> <p>Based on the results of our procedures, we did not identify any audit differences with respect to employee related accruals.</p>

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# 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.	<p>Our audit procedures test for potential overstatement of revenues through:</p> <ul style="list-style-type: none"> <li>• Testing of journal entries</li> <li>• Testing of QBP and other performance based funding to ensure appropriate revenue recognition</li> <li>• Testing of capital additions to ensure appropriate treatment of repair and maintenance costs</li> <li>• Review of management estimates for potential bias</li> </ul> <p>Based on the results of our audit procedures, no audit misstatements were identified.</p>
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.	<p>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.</p> <p>We have also tested a sample of procurements and expense reports (management and board) to ensure compliance with Hospital policy.</p>

# Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company'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:

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**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.

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**Application of accounting pronouncements issued but not yet effective**

No concerns are identified at this time regarding future implementation of accounting pronouncements.

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# 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 have not identified any observed weaknesses in the Hospital's system of internal controls and financial reporting processes. Our testing of internal controls included the following processes:

- Payroll
- Disbursements
- Procurement
- Expense reports

# Appendices

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**Appendix 1: Required communications**

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**Appendix 2: Audit Quality and Risk Management**

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**Appendix 3: Background and professional standards**

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# 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 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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