

Audit Findings Report

For the Year ended March 31, 2017

Annual General Meeting
June 19, 2017



Muskoka Algonquin Healthcare

Audit Findings Report
For the year ended March 31, 2017

KPMG LLP

Chartered Professional Accountants,
Licensed Public Accountants

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At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours.**

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, 2017.

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

As a result of our audit procedures, we have not identified any corrected or uncorrected audit differences other than matters that are considered to be trivial in nature.

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.
- Updating our assessment of subsequent events and other matters up to the date of approval of the financial statements by the Hospital's Board of Directors.

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.

Executive summary (continued)

Audit Materiality

We determined materiality by using prior year audited revenues as a benchmark and applying 1.0%, resulting in a materiality of \$745,000. The audit misstatement posting threshold was set at \$37,000.

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

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, 2017.

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.

Financial reporting risks and results

Inherent risk 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.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the entity.

Areas of focus	Why	Audit findings
Revenue recognition	Revenue recognition has been identified as a potential audit risk due to (i) conditional nature of certain funding from the Ministry of Health and Long-term Care (the 'Ministry'); 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"> • Confirming Ministry funding received and identifying conditional and unconditional funding • Agreeing one-time funding to Ministry funding letters and verifying the basis for revenue recognition • Verifying the number of QBP and priority program procedures performed, which factor into the amount of revenue recognized • Verifying the rate per procedure for QBP and priority program revenues • Performing substantive analytical procedures on other revenue sources <p>Based on the results of our audit procedures, we have not identified any audit differences related to revenues, other than items that were considered to be trivial in nature (i.e. less than our posting threshold).</p>

Area of focus	Why	Audit findings
Capital assets	<p>Capital expenditures have been identified as a potential audit risk due to (i) the significance of capital expenditures and their associated funding; and (ii) the potential incentive for management to capitalize operating costs in order to achieve the Hospital's accountability commitments.</p>	<p>We performed the necessary audit procedures over the Hospital's 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 • Reviewing repairs and maintenance accounts to identify instances where capital expenditures may have been expensed • Agreeing amortization rates to the Hospital's amortization policy (OHRS guidelines) and recalculating amortization expense for a sample of capital assets <p>The results of audit procedures did not identify any audit differences relating to capital assets, other than those considered to be trivial in nature (i.e. less than our posting threshold)</p>
Employee related accruals	<p>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>	<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"> - Grievances and arbitration - Unsettled contracts - Termination benefits, including salary continuance arrangements - Pay equity settlements - Human rights complaints - Liabilities under the Public Sector Labour Relations Transition Act <p>Based on the results of our procedures, we did not identify any audit differences other than items considered to be trivial in nature.</p>

Fraud risks and results

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Areas of focus	Why	Audit findings
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may have the incentive to overstate revenues through overstatement of shareable costs in order to achieve the intended financial results.	Our audit procedures test for potential overstatement of revenues through: <ul style="list-style-type: none"> ● Testing of journal entries ● Testing of Ministry revenues to ensure appropriate revenue recognition ● Testing of capital additions to ensure appropriate treatment of repair and maintenance costs 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.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are 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.

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.
- One-time funding from the Ministry in the amount of \$2.3 million has been separately disclosed in the Statement of Operations in order to communicate the non-recurring nature of this funding.

Application of accounting pronouncements issued but not yet effective

- 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 adjustments or differences be corrected.

Corrected adjustments

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

Uncorrected differences

No uncorrected audit differences were identified as a result of our audit procedures.

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 ICFR.

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. Processes subject to audit procedures include:

- Payroll processing
- Procurement
- Disbursements
- Employee and Board expense reports

Appendices

Appendix 1: Audit Quality and Risk Management

Appendix 2: KPMG's audit approach and methodology

Appendix 1: 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 <http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx> for more information.

- Other controls include:
 - Before the firm issues its audit report, 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 2: KPMG's audit approach and methodology

Technology-enabled audit work flow (eAudit)

Engagement Setup

- Tailor the eAudit work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudit work flow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudit work flow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan involvement of KPMG specialists and others including external experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls

Testing

- Tailor the eAudit work flow to your circumstances
- Test operating effectiveness of internal controls (as considered necessary)
- Perform substantive tests

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