AUDIT

Middlesex-London Health Unit

Audit Findings Report

For the year ending December 31, 2012

KPMG LLP, Chartered Accountants, Licensed Public Accountants

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Contents

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Executive summary

Overview

The purpose[1] of this Audit Findings Report is to assist you, as a member of the Board, in your review of the results of our audit of the financial statements of Middlesex-London Health Unit ("MLHU") as at and for the period ended December 31, 2012.

We appreciate the assistance of management and staff in conducting our audit. It was clear that the management and the finance team made the audit a priority. This level of cooperation and support was invaluable to the timely completion of an 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.

Status

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:

- completing our discussions with the Board
- obtaining evidence of the Board's approval of the financial statements
- receipt of the signed management representations letter

We will update you on significant matters, if any, arising from the completion of the audit, including completion of the above procedures. Our auditors' report will be dated upon completion of any remaining procedures.

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[1] This Audit Findings Report should not be used for any other purpose or by anyone other than the Board of Health. 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.

Significant audit, accounting and reporting matters

Included in this report are significant matters we have highlighted for discussion at the upcoming Board meeting. We look forward to discussing these matters and our findings with you.

Matters related to management's judgment and estimates

We have highlighted below significant matters related to management's judgment and estimates that we would like to bring to your attention:

Manulife benefit asset
• MLHU makes contributions to Manulife on a monthly basis to cover employee benefit costs and maintain a surplus with Manulife to cover the fluctuations of these costs. • At December 31, 2012, the surplus with Manulife totalled $448,547 (2011 - $581,841). • This surplus is reported as part of the Cash balance of MLHU.
KPMG comments regarding effect on the audit
• KPMG reviewed the agreement with Manulife to verify that MLHU has the ability to withdraw the excess funds at any time. • KPMG reviewed the Manulife Activity Summary as at December 31, 2012 to verify the accuracy of the amount reported by management.
Misstatements
• No misstatements were identified relating to the Manulife benefit asset.

Amortization of leasehold improvements
• During 2012 MLHU adjusted the estimated useful life of leasehold improvements. • The adjusted estimated useful life is based on the remaining term of the existing lease. • A change in an accounting estimate is accounting for prospectively, as required by accounting standards. Therefore, the revised amortization expense calculation applies to 2012 and future years. All prior period financial results are not affected.
KPMG comments regarding effect on the audit
• KPMG discussed the nature of the change in estimate with management. • We also recalculated the amortization expense recorded for leasehold improvements based on the revised useful life.
Misstatements
• No misstatements were identified relating to the amortization of leasehold improvements.

Significant qualitative aspects of accounting policies and practices

Our professional standards require that we communicate our views regarding the matters below, which represent judgments about significant qualitative aspects of accounting policies and practices. Judgments about quality cannot be measured solely against standards or objective criteria. These judgments are inherently those of the individual making the assessment: the engagement partner. However, although judgments about quality are those of the engagement partner, the views discussed below are not contrary to positions KPMG has taken.

The following are the matters we plan to discuss with you:

Significant accounting policies	• All significant accounting policies are disclosed in notes to the financial statements. • KPMG reviewed accounting policies adopted by management, including management's assessment of all accounting policies adopted by the entity, and all are considered appropriate.
Critical accounting estimates	• Management's identification of accounting estimates • Management's process for making accounting estimates • There are no indicators of management bias as a result of our audit over estimates • Disclosure of estimation uncertainty in the financial statements is included in the notes to the financial statements. The notes provide information on areas in the financial statements that include estimates. • Management evaluates these estimates on a regular basis to ensure they are appropriate
Critical disclosures and financial statement presentation	• We identified no inconsistencies with the overall neutrality, consistency, and clarity of the disclosures in the financial statements • Overall, the disclosures in the financial statements are clear and are consistent with prior periods.

Misstatements

Identification of misstatements

Misstatements identified during the audit have been categorized as follows:

- uncorrected misstatements in excess of $48,750, including disclosures
- corrected misstatements in excess of $48,750 including disclosures

Uncorrected misstatements

We identified no misstatements that remain uncorrected.

Corrected misstatements

We identified no misstatements that were corrected by management.

Control deficiencies

Background and professional standards

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.

Identification

No control deficiencies have been identified.

Appendices

Independence letter

Management representation letter

Draft auditors' report

Independence letter

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Middlesex-London Health Unit
50 King Street
London, ON
N6A 5L7

June 20, 2013

Ladies and Gentlemen

Professional standards specify that we communicate to you in writing all relationships between the Entity (and its related entities) and our firm, that may reasonably be thought to bear on our independence.

In determining which relationships to report, we consider relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation, covering such matters as:

a) provision of services in addition to the audit engagement

b) other relationships such as:

- holding a financial interest, either directly or indirectly, in a client
- 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
- personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client
- economic dependence on a client

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PROVISION OF SERVICES

The following summarizes the professional services rendered by us to the Entity (and its related entities) from January 1, 2012 up to the date of this letter:

Description of Professional Services
Audit • Audit of December 31, 2012 Financial Statements • Audit of March 31, 2013 Consolidated Programs

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards regarding to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions.
- We obtained pre-approval of non-audit services and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services.
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services and we have not made any management decisions or assumed responsibility for such decisions.

OTHER RELATIONSHIPS

We are not aware of any other relationships between our firm and the Entity (and its related entities) that may reasonably be thought to bear on our independence from January 1, 2012 up to the date of this letter.

CONFIRMATION OF INDEPENDENCE

We confirm that we are independent with respect to the Entity (and its related entities) within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation from January 1, 2012 up to the date of this letter.

OTHER MATTERS

This letter is confidential and intended solely for use by those charged with governance in carrying out and discharging their responsibilities and should not be used for any other purposes.

KPMG shall have no responsibility for loss or damages or claims, if any, to or by any third party as this letter has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Yours very truly,

KPMG LLP

Chartered Accountants, Licensed Public Accountants

Management representation letter

KPMG LLP
Chartered Accountants
1400-140 Fullarton Street
London, ON N6A 5P2

June 20, 2013

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the consolidated financial statements (hereinafter referred to as "financial statements") of Middlesex-London Health Unit ("the Entity") as at and for the period ended December 31, 2012.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated December 1, 2010 for:

   a) the preparation and fair presentation of the financial statements

   b) providing you with all relevant information and access

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

   d) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.

ACCOUNTING POLICIES:

2) The accounting policies selected and applied are appropriate in the circumstances.

3) There have been no changes in, or newly adopted, accounting policies that have not been disclosed to you and appropriately reflected in the financial statements.

4) Retrospective application has been made to the prior period financial statements for changes in accounting policies in accordance with the relevant financial reporting framework.

ESTIMATES / MEASUREMENT UNCERTAINTY:

5) We are responsible for making any fair value measurements and disclosures included in the financial statements.

6) For recorded or disclosed amounts that incorporate fair value measurements:

   a) the measurement methods are appropriate and consistently applied.

   b) the significant assumptions used in determining fair value measurements represent our best estimates, are reasonable, are adequately supported and have been consistently applied.

   c) the resulting valuations are reasonable.

   d) presentation and disclosure is complete and appropriate and in accordance with the relevant financial reporting framework.

ASSETS & LIABILITIES – GENERAL:

7) We have no knowledge of material unrecorded assets or liabilities or contingent assets or liabilities (such as claims related to patent infringements, unfulfilled contracts, etc., whose values depend on fulfillment of conditions regarded as uncertain or receivables sold or discounted, endorsements or guarantees, additional taxes for prior years, repurchase agreements, sales subject to renegotiation or price re-determination, etc.) that have not been disclosed to you.

8) We have no knowledge of shortages that have been discovered and not disclosed to you (such as shortages in inventory, cash, negotiable instruments, etc.).

9) We have no knowledge of arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements and not disclosed to you.

10) We have no knowledge of agreements to repurchase assets previously sold, including sales with recourse, that have not been disclosed to you.

11) We have no knowledge of side agreements (contractual or otherwise) with any parties that have not been disclosed to you.

COMPARATIVE FIGURES/FINANCIAL STATEMENTS:

12) We have no knowledge of any significant matters that may have arisen that would require a restatement of the comparative figures/financial statements.

PROVISIONS:

13) Provision, when material, has been made for:

   a) losses to be sustained in the fulfillment of, or inability to fulfill, any sales commitments.

   b) losses to be sustained as a result of purchase commitments for assets at quantities in excess of normal requirements or at prices in excess of prevailing market prices.

   c) losses to be sustained from impairment of property, plant and equipment, including amortizable intangible assets.

   d) losses to be sustained from impairment of goodwill and/or non-amortizable assets.

FINANCIAL INSTRUMENTS, OFF-BALANCE-SHEET ACTIVITIES, HEDGING AND GUARANTEES:

14) Guarantees, whether written or oral, under which the Entity is contingently liable, including guarantee contracts and indemnification agreements, have been recorded and/or disclosed in accordance with the relevant financial reporting framework.

15) The following information about financial instruments has been properly disclosed in the financial statements:

   a) extent, nature, and terms of financial instruments, both recognized and unrecognized;

   b) the amount of credit risk of financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments; and

   c) significant concentrations of credit risk arising from all financial instruments, both recognized and unrecognized, and information about the collateral supporting such financial instruments.

   d) All financial assets and liabilities outstanding as of the balance sheet date have been reviewed and correctly classified or designated as either: held-for-trading, held-to-maturity, loans and receivables or available-for-sale financial assets or other financial liabilities in accordance with the relevant financial reporting framework, and have been appropriately recorded at their fair value, amortized cost or cost based on their classification or designation.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

16) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which management is aware.

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

17) We have disclosed to you:

    a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

    b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements.

    c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, analysts, regulators, or others.

    d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.

    e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

COMMITMENTS & CONTINGENCIES:

18) There are no:

    a) other liabilities that are required to be recognized and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with the relevant financial reporting framework, including liabilities or contingent liabilities arising from illegal acts or possible illegal acts, or possible violations of human rights legislation

    b) other environmental matters that may have an impact on the financial statements

SUBSEQUENT EVENTS:

19) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

20) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and

transactions have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

21) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

22) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

MISSTATEMENTS:

23) The effects of the uncorrected misstatements described in **Attachment II** are immaterial, both individually and in the aggregate, to the financial statements as a whole.

24) We approve the corrected misstatements identified by you during the audit described in **Attachment II**.

Yours very truly,

____

Dr. Christopher Mackie, MD
Medical Officer of Health and Chief Executive Officer

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John Millson, BA, CGA
Manager, Finance & Operations

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian Accounting Standards for the public sector, a *related party* is defined as:

- *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. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.*

In accordance with Canadian Accounting Standards for the public sector, a *related party transaction* is defined as:

- *A transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.*

Attachment II – Summary of Audit Misstatements

Summary of Uncorrected Audit Misstatements

None identified.

Summary of Corrected Audit Misstatements

None identified.

Draft auditors' report

To the Chair and Members, Middlesex London Board of Health

We have audited the accompanying financial statements of Middlesex London Health Unit, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of operations, change in net debt, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Middlesex London Health Unit as at December 31, 2012, and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

DRAFT

Chartered Accountants, Licensed Public Accountants
June 20, 2013
London, Canada

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