



Middlesex-London Health Unit

Audit Findings Report
For the year ended December 31, 2016

KPMG LLP

Licensed Public Accountants

June 1, 2017

kpmg.ca/audit



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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 Finance and Facilities Committee, in your review of the results of our audit of the financial statements of the Middlesex-London Health Unit for the year ended December 31, 2016.

This Audit Findings Report builds on the Audit Plan that was provided to management.

Changes from the Audit Plan

There have been no significant changes regarding our audit from the Audit Planning Report previously provided.

Audit Materiality

Materiality has been determined based on total expenses. We have determined materiality to be \$1,073,000 for the year ending December 31, 2016.

See page 5.

Audit risks and results

We identified at the start of the audit a significant financial reporting risk relating to the presumed fraud risk over management override of controls.

This risk has been addressed in our audit.

We have identified other areas of audit focus to discuss with you.

See pages 6-8.

Adjustments and differences

We did not identify differences that remain uncorrected.

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

See page 9.

This Audit Findings Report should not be used for any other purpose or by anyone other than the Finance and Facilities 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

Finalizing the audit

As of May 17, 2017, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

- receipt of legal confirmations;
- completing our discussions with the Finance and Facilities Committee;
- obtaining evidence of the Board's approval of the financial statements;
- receipt of the signed management representation letter

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

Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in ICFR.

Significant accounting estimates

Overall, we are satisfied with the reasonability of critical accounting estimates.

- Management identifies all accounting estimates and establishes processes 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 Note 1(e), Use of estimates. This note provides information on areas in the financial statements that include estimates.
- Management evaluates these estimates on a regular basis to ensure they are appropriate.

Independence

We are independent with respect to the Health Unit within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any other standards or applicable legislation or regulation.

See Appendix 2.

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.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Health Unit's relevant financial reporting framework. The form, arrangement, and content of the financial statements is considered to be appropriate.

Materiality

Professional standards require us to re-assess materiality at the completion of our audit based on period-end results or new information in order to confirm whether the amount determined for planning purposes remains appropriate.

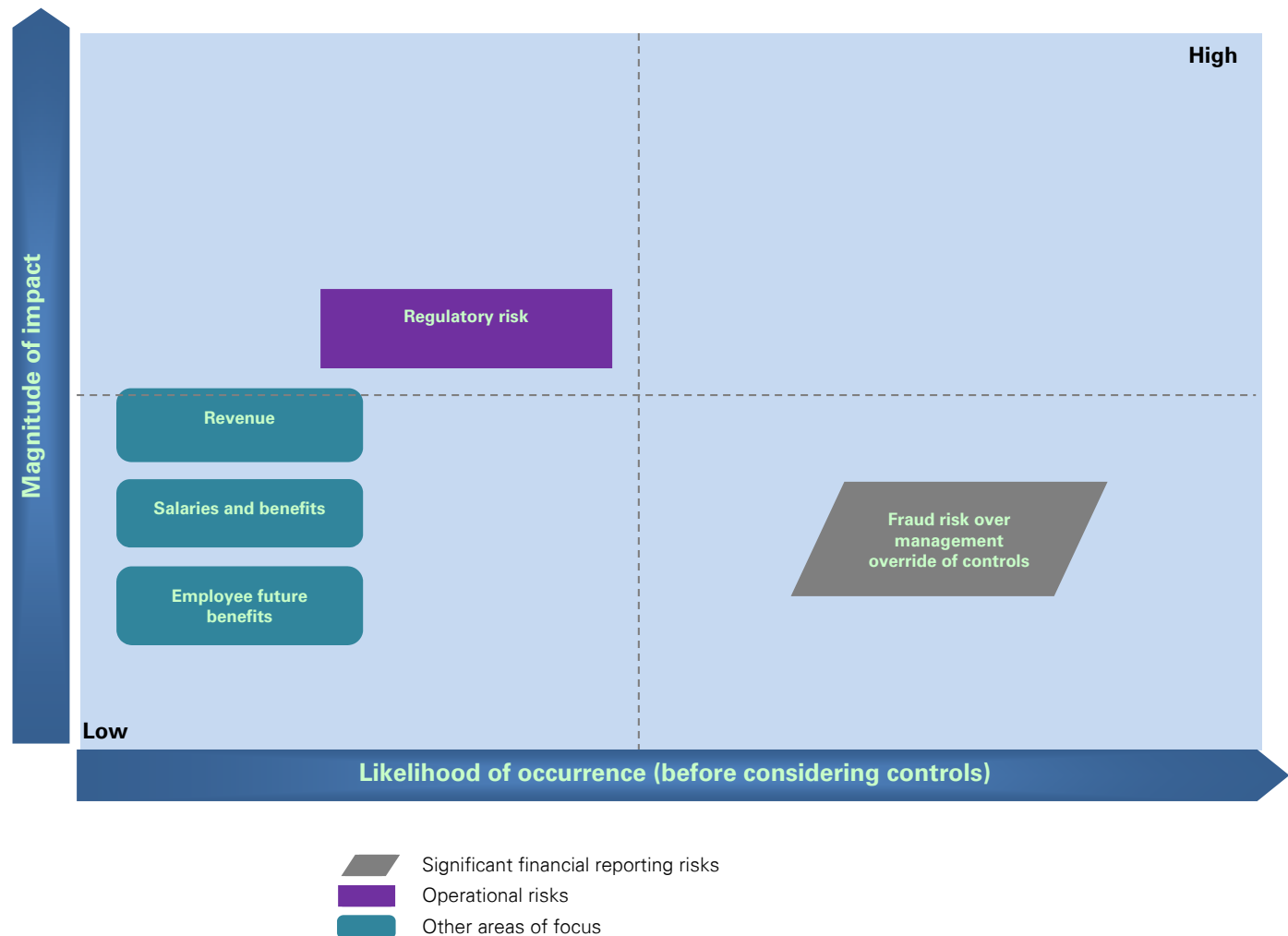
Our assessment of misstatements, if any, in amounts or disclosures at the completion of our audit will include the consideration of both quantitative and qualitative factors.

The determination of materiality requires professional judgment and is based on a combination of quantitative and qualitative assessments including the nature of account balances and financial statement disclosures.

Materiality determination	Comments	Amount
Metrics	Relevant metrics included total revenues, total expenses and net assets.	
Benchmark	Based on total expenses for the year. This benchmark is consistent with the prior year.	\$35,756,078
Materiality	Determined to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements. The corresponding amount for the prior year's audit was \$1,090,000.	\$1,070,000
% of Benchmark	The corresponding percentage for the prior year's audit was 3%.	3%
Performance materiality	Used 75% of materiality, and used primarily to determine the nature, timing and extent of audit procedures. The corresponding amount for the prior year's audit was \$817,500.	\$802,500
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was \$54,500.	\$53,500
Reclassification AMPT	Threshold used to accumulated reclassification misstatements. The corresponding amount for the previous year's audit was \$218,000.	\$214,000

Audit risks and results

This diagram is our top-down view of the financial reporting risks and their potential misstatement impact mapped against the likelihood of a misstatement occurring (before controls).



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 findings in respect of significant financial reporting risks.

Significant financial reporting risks	Why	Our response and significant findings
Fraud risk from management override of controls	<p>This is a presumed fraud risk.</p> <p>We have not identified any specific additional risks of management override relating to this audit.</p>	<ul style="list-style-type: none"> • We selected and assessed a sample of journal entries recording as part of the year-end closing process. • We considered the appropriateness of estimates made by management in the preparation of the financial statements. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> • No issues noted.

Audit risks and results

Our findings from the audit regarding other areas of focus are as follows:

Other areas of focus	Our response and significant findings
Revenue and deferred revenue	<p>Substantive approach:</p> <ul style="list-style-type: none"> • Substantive analytical procedures over Grants and Other revenues. • Agreed significant grants from all levels of government to funding agreements. • Obtained supporting documentation for significant deferred revenue balances at year-end. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> • No issues noted.
Salaries and benefits	<p>Substantive approach:</p> <ul style="list-style-type: none"> • Substantive analytical procedures over salaries and benefits, including vouching new hires and terminations to supporting documentation. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> • No issues noted.
Post-retirement benefits liability	<p>Substantive approach:</p> <ul style="list-style-type: none"> • Obtained copy of actuarial report directly from actuary. • Assessed the reasonableness of significant assumptions included in the valuation. • Reviewed financial statement disclosure relating to post-retirement benefits liability. <p><i>Our findings:</i></p> <ul style="list-style-type: none"> • No issues noted.

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

We did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Uncorrected differences

We did not identify differences that remain uncorrected.

Appendices

Appendix 1: Required communications

Appendix 2: Independence

Appendix 3: Audit Quality and Risk Management

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
- **Management representation letter** –In accordance with professional standards, copies of the management representation letter are provided to the Finance and Facilities Committee. The management representation letter is attached.

Appendix 2: Independence

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.

We have prepared the following comments to facilitate our discussion with you regarding independence matters.

The following summarizes the professional services rendered by us to the Entity:

Description of professional services

Audit of the Middlesex-London Health Unit financial statements for the year ended December 31, 2016.

Audit of the schedule of revenue and expenditures of the Middlesex-London Health Unit for the year ended December 31, 2016.

Audit of the Middlesex-London Health Unit March 31st Programs consolidated financial statements for the year ended March 31, 2017.

Advisory assistance with respect to physical space needs.

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 related 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

Appendix 3: 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.

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