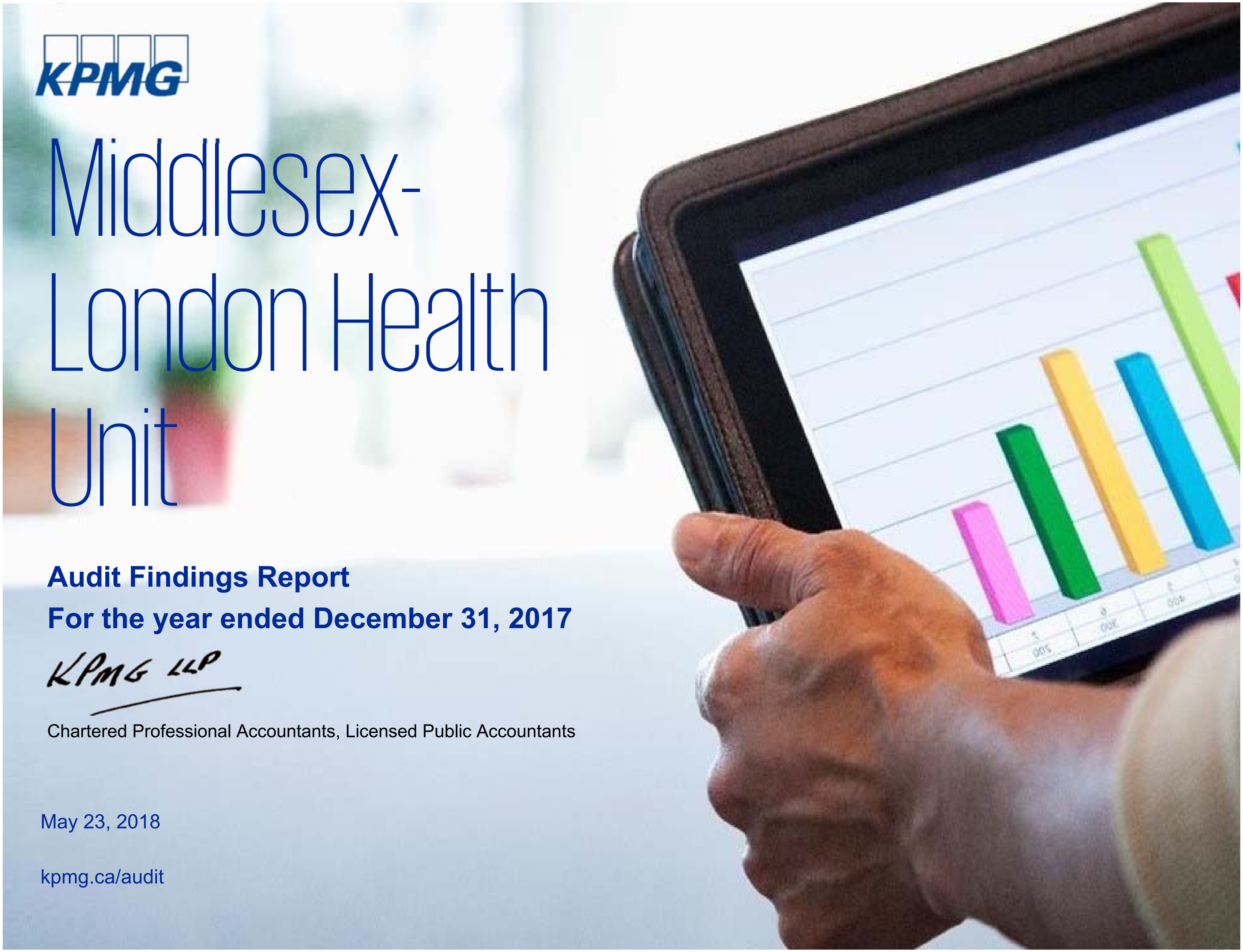
Appendix B to Report No. 022-18FFC

KPMG

Middlesex-London Health Unit



Audit Findings Report

For the year ended December 31, 2017

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

May 23, 2018

kpmg.ca/audit

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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 Finance and Facilities Committee, in your review of the results of our audit of the financial statements of Middlesex-London Health Unit as at and for the year ended December 31, 2017.

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

Changes from the Audit Plan

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

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.

These risks have been addressed in our audit.

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

See pages 6-7.

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 8.

*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 14, 2018, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

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

We will update the Finance and Facilities Committee, and not solely the Chair (as required by professional standards), 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.

Critical accounting estimates

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

The critical areas of estimates relate to accrued liabilities, actuarial valuations of employee future benefits and useful lives of tangible capital assets,

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.	$35,476,188
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 $1,070,000.	$1,064,000
% 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 $802,500.	$798,000
Audit Misstatement Posting Threshold (AMPT)	Threshold used to accumulate misstatements identified during the audit. The corresponding amount for the previous year's audit was $53,500.	$53,200
Reclassification AMPT	Threshold used to accumulated reclassification misstatements. The corresponding amount for the previous year's audit was $214,000.	$212,800

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	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	• We selected and assessed a sample of journal entries recorded as part of the year-end closing process. • We considered the appropriateness of estimates made by management in the preparation of the financial statements. *Our findings:* No issues noted.

Audit risks and results

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

Other areas of focus	Our response and significant findings
Grants and other revenue	Substantive approach: • 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. *Our findings:* No issues noted.
Salaries and benefits	Substantive approach: • Substantive analytical procedures over salaries and benefits, including vouching new hires and terminations to supporting documentation. *Our findings:* No issues noted.
Post-retirement benefits liability	Substantive approach: • Obtained copy of actuarial report directly from actuary and tied the balance to post-employment benefits liability. • Assessed the reasonableness of significant assumptions included in the valuation. • Reviewed financial statement disclosure relating to post-retirement benefits liability. *Our findings:* 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 Finance and Facilities 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.

Control observations

In accordance with professional standards, we are required to communicate to the Finance and Facilities Committee any control deficiencies that we identified during the audit and have determined to be significant deficiencies in ICFR.

No significant deficiencies have been identified.

Appendices

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, 2017.
Audit of the schedule of revenue and expenditures of the Middlesex-London Health Unit for the year ended December 31, 2017.
Audit of the Middlesex-London Health Unit March 31 Programs consolidated financial statements for the year ended March 31, 2018.

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.

Appendix 4: 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.

Appendix 5: Forensic Focus

Forensic Focus

kpmg.ca/forensicfocus

Boards Beware and Be Prepared!

Fraud in the Not-for-Profit Sector

By Karen Grogan, Partner, Veronica Chapman, Senior Manager and Maria Shevkoplyas, Technician, KPMG Forensic Services, KPMG in Canada

It is difficult to swallow when a volunteer takes cash donations away from those in need for their personal use but it is appalling when an employee or Executive Director (ED) defrauds the organization they are entrusted to protect.

According to the **Association of Certified Fraud Examiners (ACFE) 2016 Report to the Nations on Occupational Fraud and Abuse**, the median financial loss to the NFPs reviewed was $100,000.[1]

The Opportunity

NFPs face unique and significant challenges which put them at greater risk of suffering from fraudulent schemes relative to for-profit organizations. In efforts to minimize administrative costs, many NFPs are understaffed and a lot of unilateral power is given to the executive director (ED) with insufficient or no internal controls in place and very limited Board of Directors (Board) oversight. This can lead to many issues, including fraud and improper spending.

An aware and diligent Board, acting as independent governance oversight, can be the last or often the only line of defense.

Common Schemes of Misuse

Based on our experience, the most common ways employees defraud NFPs include:

- Claiming for reimbursement of personal items including travel and clothing via expense reports or directly charging the NFP's credit cards
- Using the NFP's service providers to obtain services personally such as landscaping or maintenance and processing the invoices for payment directly by the NFP
- Writing unauthorized cheques or electronically transferring funds to themselves or family members
- Taking cash donations or other cash inflows for personal use
- Approving funds to individuals/organizations that are outside of the NFP's purpose
- Employing family and friends and paying excessive wages
- Awarding vendor contracts to relatives or friends and paying prices that exceed fair market value

Characteristics of a Fraudster

Over the years, we have identified patterns of behavior commonly demonstrated by fraudsters that may help alert you to potential impropriety.

Employees who have defrauded NFP's are often long-term employees (who may have been there since inception) in a position of trust. The fraudster may exhibit some of the following characteristics:

[1] NFPs represented 10% of the cases analyzed by the ACFE in their 2016 report.

- They treat the NFP as their own and spend funds in any manner they wish
- Their actions often appear to be in a grey area of what would be considered unethical
- They treat other employees poorly and in a "bully" type fashion
- They make exceptions to the rules – for example providing funds to inappropriate individuals or projects that conflict with the NFP's mandate
- They control who serves as members of the Board of Directors, and may enlist friends and family to join the Board as well as those they consider "weak" in order to influence or otherwise control the Board's decision making
- They do not obtain approvals from the Board for expenses even when required to do so by internal policy
- They direct more junior staff members to submit their expenses so they can approve their own expenses without escalation to the Board

Preventative Measures

Board oversight is very important in the fight against fraud at NFPs. Setting the right tone at the top and providing clear ethical guidance can be achieved through implementing written policies and procedures including a code of conduct policy that describes what behaviours/actions are unacceptable. Although a written policy will not in itself prevent fraudulent behavior, it can help define expectations and can act as justification for dismissal when a breach is identified. It can also provide stronger evidence for wrongful dismissal suits, civil litigation or criminal charges. To reduce the risk of fraudulent activities, Boards should consider the following:

- Written policies and procedures – including conflict of interest, and guidance addressing personal versus business expenses and travel reimbursement policies
- Implementing strong internal controls over disbursements, including:
    - Segregation of duties (ordering, receiving, invoice approval, and payment)
    - Proper authorization of transactions (including escalation and review of adequate supporting documentation)
    - Control over the NFP's credit cards to ensure all credit card statements are submitted with accompanying itemized receipts for review and approval even if the expenses are incurred by the ED or other high ranking employees of the NFP
    - Ensure expense reports of the highest ranking employee (ED) are submitted to the Board for approval
    - Ensure expenses are submitted for approval by the most senior person involved in the expenditure (i.e. group meals) so the ED is not approving their own expenses
    - Control electronic fund transfers (EFTs) so that two electronic approvals are required[2]
- Implementing strong internal controls over fund receipts (donations or other sources), including:
    - Segregate duties between those recording receipts, depositing funds, and reconciling the bank accounts
    - Issue donations on pre-numbered receipts and ensuring the continuity of the receipt number sequence in the collection records
    - Ensure supervision of cash collections and maintenance of detailed supporting records including sign-off by each person involved

Recovery Measures

The expense of civil litigation in an attempt to recover losses from the fraudster may be costly, lengthy and take time away from the mandate of the NFP. Therefore even if an NFP has controls in place to prevent and/or detect fraudulent activity, it would still be prudent to purchase fidelity insurance that may cover not only the loss from the fraud but the forensic accounting fees required to investigate and quantify the loss. The resulting forensic report can be used for both civil and criminal purposes. In some criminal proceedings the court may also order restitution be made to the NFP.

The implications of fraudulent acts at NFP's reach far beyond the financial losses. They can result in damage to the reputation of the NFP, a loss of trust among donors, and they disrupt the NFP's business operations and ability to perform its mission. As a Board of an NFP you must be aware of the risks and be prepared to recognize weaknesses and take action to prevent, detect and respond to fraud.

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[2] In many cases although the policy is for two signatures, we find when it comes to EFT's one person has complete control over transferring funds without any approval.

For more information, visit kpmg.ca/forensic or

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Appendix 6: Management representation letter

(Letterhead of Client)

KPMG LLP
Address

Date

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 financial statements (hereinafter referred to as “financial statements”) of Middlesex-London Health Unit (“the Entity”) as at and for the period ended December 31, 2017.

General:

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 also 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:

Responsibilities:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated September 15, 2016 including for:

   a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.

   b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.

   c) providing you with additional information that you may request from us for the purpose of the engagement.

   d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.

   e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.

h) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

Internal control over financial reporting:

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

Fraud & non-compliance with laws and regulations:

3) 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 financial statements and involves: management, employees who have significant roles in internal control over financial reporting, 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 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.

Subsequent events:

4) 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:

5) We have disclosed to you the identity of the Entity's related parties.

6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.

7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

Estimates:

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

Going concern:

9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

Non-SEC registrants or non-reporting issuers:

10) 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.

Yours very truly,

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Brian Glasspoole, Manager, Finance

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

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 not-for-profit organizations, *related party* is defined as:

- *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 not-for-profit organizations, 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.*