



Staff Report

DATE: November 17, 2022

FILE: H-FI

TO: Chair and Directors
Comox Strathcona Regional Hospital District Board

Supported by Russell Dyson
Chief Administrative Officer

FROM: Russell Dyson
Chief Administrative Officer

R. Dyson

RE: Audit Service Plan for the Year Ending December 31, 2022

Purpose

To present the 2022 audit service plan for the Comox Strathcona Regional Hospital District (CSRHD) to the Board as submitted by the audit firm MNP LLP.

Recommendation from the Chief Administrative Officer:

This report is provided for information.

Executive Summary

- The CSRHD Board exercises its independent authority relating to the external audit by meeting with the external auditors to receive and review the annual audit service plan.
- MNP LLP has prepared the attached 2022 audit service plan (Appendix A) for the CVRD Board's review, including the engagement letter (Appendix B).
- The audit service plan covers the audit for the CSRHD from January 1, 2022 to December 31, 2022 and identifies an overview of the audit approach, proposed engagement team, scope of the audit, fees and timeline for deliverables.
- Additionally, the audit service plan identifies upcoming changes to accounting and assurance standards that may affect scope of the audit and the financial statements. For the 2022 audit, an amendment to the assurance standard CAS 315, Identifying and Assessing the Risks of Material Misstatement, will result in additional work for the audit team.
- As part of the audit service plan, changes in reporting standards are addressed. New developments include PSAB Standard (PS) 1201 Financial Statement Presentation (amendments) and 3450 Financial Instruments (new and amendments). Changes arising from these standards will affect CSRHD financial statements beginning for the year ended December 31, 2023.
- Financial Statements will be presented in April 2023 and MNP will present the audit findings report to the Board.

Prepared by:

Concurrence:

K. Powell

L. Wiwcharuk

Katie Powell, CPA
Manager of Financial Operations

Lucy Wiwcharuk, BMgmt., CPA, CMA
Chief Financial Officer

Background / Current Situation

Annually, the appointed audit firm prepares and submits an audit service plan to the Board, providing an overview of the audit approach, proposed engagement team, scope of the audit and timeline for the deliverables. The report also includes information regarding new reporting and assurance developments that may impact the scope of the audit or financial statement presentation.

MNP has noted three new reporting developments. The first year PS 1201 Financial Statement Presentation (amendments) and 3450 Financial Instruments (new and amendments) will be applicable for the CSRHD will be for the year ended December 31, 2023. Meeting requirements of these two changes have minor implications to staff and the audit given that the CSRHD does not currently hold any investments.

Policy Analysis

Audit requirements of the Chartered Professional Accountants of Canada require the auditor to communicate with those, other than management, having oversight responsibility for the financial statements.

The audit firm has recognized the Board's authority by submitting the 2022 audit service plan and attending the Board meeting upon completion of the 2022 audit to present the final audit report.

Options

Not relevant

Financial Factors

The 2022 base audit fees of \$5,000 (2021 - \$4,500) noted in the audit service plan are as quoted in the proposal received from MNP LLP for their audit engagement term 2021-2025.

Legal Factors

Not relevant.

Regional Growth Strategy Implications

Not relevant.

Intergovernmental Factors

Not relevant.

Interdepartmental Involvement

Not relevant.

Citizen/Public Relations

Not relevant.

Attachments: Appendix A – Comox Strathcona Regional Hospital District, Audit Service Plan,
Year ending December 31, 2022
Appendix B – Comox Strathcona Regional Hospital District, Engagement Letter,
Year ending December 31, 2022



Comox-Strathcona Regional Hospital District

2022 Audit Service Plan

Report to the Board of Directors

December 31, 2022

Cory Vanderhorst, CPA, CA
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Audit Service Plan Overview

We are pleased to present our Audit Service Plan for Comox-Strathcona Regional Hospital District (the "Hospital District") which outlines the strategy we will follow to provide the Hospital District's Board of Directors with our Independent Auditor's Report on the December 31, 2022 financial statements. We are providing this Audit Service Plan to the Board of Directors on a confidential basis. It is intended solely for the use of the Board of Directors and is not intended for any other purpose. Accordingly, we disclaim any responsibility to any other party who may rely on this report.

Additional material provided along with this plan includes our Engagement Letter. Our Engagement Letter is the formal written agreement of the terms of our audit engagement as negotiated with management and outlines our responsibilities under Canadian generally accepted auditing standards.

Topics for Discussion

We are committed to providing superior client service by maintaining effective two-way communication. Topics for discussion include, but are not limited to:

- Changes to your business operations and developments in the financial reporting and regulatory environment
- Business plans and strategies
- Any other issues and/or concerns
- Fraud, including how fraud could occur, the risk of fraud and misstatement, and any actual, suspected or alleged fraud
- The management oversight process
- Your specific needs and expectations

The MNP Audit Approach

Audit Materiality

The scope of our audit work is tailored to reflect the relative size of operations of the Hospital District and our assessment of the potential for material misstatements in the Hospital District's financial statements as a whole (and, if applicable, for particular classes of transactions, account balances or disclosures). In determining the scope, we emphasize relative audit risk and materiality, and consider a number of factors, including:

- The size, complexity, and growth of the Hospital District
- Changes within the organization, management or accounting systems
- Concerns expressed by management



We propose to use \$500,000 as overall materiality for audit planning purposes.

Auditor's Approach to Internal Control

For the December 31, 2022 audit, we are planning to place low reliance on the Hospital District's accounting system. This level of reliance is consistent with the prior year end, and will involve mainly substantive tests of details.

Key Changes and Developments

Based on our knowledge of the Hospital District and our discussions with management, we have noted the recent developments set out below. Our audit strategy has been developed giving consideration to these factors.

ISSUES AND DEVELOPMENTS	SUMMARY
 NEW REPORTING DEVELOPMENTS	<ul style="list-style-type: none"> • PS 1201 Financial Statement Presentation (Amendments) • PS 3450 Financial Instruments (Amendment) • PS 3450 Financial Instruments (New and Amendment)
 NEW ASSURANCE DEVELOPMENTS	<ul style="list-style-type: none"> • CAS 315 Identifying and Assessing the Risks of Material Misstatement (Amendment)

Detailed information on Key Changes and Developments are included as Appendix A.

CAS 315 Update

The Canadian Auditing Standards (CAS) has revised the auditing standard related to identifying and assessing risks of material misstatements.

The revised CAS 315 will be effective for our audit of the Hospital District's financial statements ending December 31, 2022.

Key changes include:

- Re-analyse financial statement risks by component parts: complexity, subjectivity, etc.;
- In depth understanding of the Hospital District's use of information technology (IT);
- Additional requirements around management's control environment

What does this mean for our audit?

There will be an increase in upfront planning time required from both management and our audit team to meet the revised requirements. Specifically:

1. Audit risk assessment currently considers fraud schemes and significant risks, and assertion-level evaluation of financial statement risk. The addition of inherent risk factors (complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud factors) is more granular and will require both careful assessment at planning, and specific audit procedures in response.
2. We will require assistance from management and the Hospital District's information technology department to understand the Hospital District's use of IT. Based on this detailed understanding, our audit team will evaluate the risks arising from IT and the design and implementation of the IT general controls. Implications may include the involvement of an IT specialist and testing of the Hospital District's IT general controls and IT application controls. In addition to the IT environment, our audit team will be assessing key controls and the benefits of testing the operating effectiveness of these controls as it relates to the overall audit approach.
3. Even where we do not plan to rely on controls, additional requirements apply to understand components of management's entity-level control environment including oversight, culture, assignment of responsibility and how individuals are held accountable.

The new requirements noted above may result in the identification of deficiencies in the design and implementation of certain controls. We will then engage with management through the subsequent period to ensure our parallel assessment of efforts aimed at remediating control deficiencies.

Sample questions to consider asking management are:

1. Has the Hospital District evaluated controls over risk assessment, oversight, culture, assignment of authority/responsibility?
2. Has the Hospital District extended the evaluation of controls to the Hospital District's information technology system (e.g. changes to manage change or logical access IT general controls, implementation of new IT applications) and were any weaknesses identified?
3. Were there any challenges in applying the new requirements?

Further we encourage you to ask us questions to stay informed, here are a sample of questions to consider:

1. How has the revised CAS 315 influenced the risk assessment for the current year audit? Has the scope changed from the prior year?
2. How has the assessed risks of material misstatement related to the Hospital District's information technology systems affect the audit and how have you addressed those potential risks?
3. To what extent did you engage IT specialists to be involved in the audit of financial statements? If so, how were the specialists used, and did the use of specialists change in the current year?
4. How has your risk assessment of the internal control policies and procedures impacted the audit strategy for the current year?
5. Are there any areas where management could be of greater assistance to reduce the amount of time spent by you?
6. Were there any challenges in applying the new requirements to the audit?

Audit Team

In order to ensure effective communication between the Board of Directors and MNP, we outline below the key members of our audit team that will be responsible for the audit of Comox-Strathcona Regional Hospital District and the role they will play:

RETURNING TEAM MEMBERS	CONTACT INFORMATION
Cory Vanderhorst, CPA, CA, Engagement Partner	E: Cory.Vanderhorst@mnp.ca
Kristy Rowbotham, CPA, Engagement Manager	E: Kristy.Rowbotham@mnp.ca

Our partners and senior management are committed to providing you with the highest level of attention and oversight throughout the terms of this engagement, reflecting MNP's staffing model and client service philosophy. Through consistent attention from leaders, our engagement team will maintain responsibility and authority over all matters of the engagement and will drive service delivery and issue resolution. In addition, the engagement team will be actively involved and have hands-on involvement with service delivery, ensuring engagement objectives will be met.

In order to serve you better and meet our professional responsibilities, we may find it necessary to expand our audit team to include other professionals whose consultation will assist us to evaluate and resolve complex, difficult and/or contentious matters identified during the course of our audit.

Any changes to the audit team will be discussed with you to ensure a seamless process and that all concerned parties' needs are met.

Time of the Audit

KEY DELIVERABLE	EXPECTED DATE
Year-end fieldwork procedures	to February 2023
Draft year-end financial statements to be discussed with management	April 2023
Presentation of December 31, 2022 Audit Findings Report to the Board of Directors	April 2023
Presentation of Management Letter to the Board of Directors	April 2023
Issuance of Independent Auditor's Report	April 2023

Fees and Assumptions

DESCRIPTION	2022 ESTIMATE	2021 ACTUAL
Base audit fee	\$ 5,000	\$ 4,500

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the engagement partner, so a mutually agreeable solution can be reached.

Invoices will be rendered as work progresses in accordance with the following schedule:

DESCRIPTION	AMOUNT
Progress billing #1 On delivery of audit service plan 50% of estimated fee	\$ 2,500
Final billing – upon release of auditor's report	\$ 2,500
Total	\$ 5,000

We look forward to discussing our Audit Service Plan with you, as well as any other matters of interest to you.

Sincerely,



MNP LLP

Chartered Professional Accountants

Appendix A – Key Changes and Developments

We would like to bring to your attention the following accounting and auditing developments, which may have some impact on your financial reporting.

Issues and Developments Summary

New Reporting Developments

PS 1201 Financial Statement Presentation (Amendments)

In April 2021, the Public Sector Accounting Board (PSAB) issued amendments to PS 1201 *Financial Statement Presentation*.

The narrow-scope amendments clarify the presentation of derivatives, specifically allowing public sector entities to present the remeasurement impact of derivatives separately on the statement of change in net debt. Other minor presentation clarifications have also been included such as allowing a new subtotal for the change in net debt excluding the impact of remeasurement gains and losses on the statement of change in net debt and allowing the inclusion of a footnote on the net debt indicator in the statement of financial position to refer to additional detail provided on the statement of change in net debt.

The amendments are effective in the same period PS 2601 *Foreign Currency Translation* and PS 3450 *Financial Instruments* are adopted. PS 2601 and PS 3450 are to be adopted together and are effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

PS 3450 Financial Instruments (Amendment)

In April 2020, the Public Sector Accounting Board (PSAB) issued amendments to PS 3450 *Financial Instruments*. The main features of the amendments include:

Bond Repurchase Transactions

- Bond repurchase transactions are only to be treated as extinguishments when they are either:
 - Legally discharged;
 - An exchange of debt instruments with substantially different terms; or
 - A substantial modification of the terms of an existing financial liability or part of it.

Section Application

- Clarification that PS 3450 does not apply unless a contractual right or a contractual obligation underlies a receivable or payable. By definition, there must be a contract for there to be a financial instrument.
- Clarification for how to account for a transfer of collateral pursuant to a credit risk management mechanism in a derivative contract.
- Addition of application guidance explaining that derecognition of a financial asset does not occur if the transferor of a financial asset retains substantially all the risks and benefits of ownership.

Transitional Provisions

- Clarification that a controlling government should use carrying values of the financial assets and liabilities in the records of its government organizations when consolidating a government organization.

- For financial assets or financial liabilities in the cost or amortized cost category which have an associated unamortized discount, premium or transaction costs, the unamortized discount, premium or transaction costs should be included in the item's opening carrying value.
- For derivatives which may not have been recognized or may not have been measured at fair value prior to the adoption of PS 3450, any difference between the previous carrying value and fair value should be recognized in the opening balance of accumulated remeasurement gains and losses.

The amendments were to be effective for fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section and amendments are now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted.

PS 3450 Financial Instruments (New and Amendment)

In June 2011, the Public Sector Accounting Board (PSAB) issued new PS 3450 *Financial Instruments*. The new standard establishes requirements for recognition, measurement, derecognition, presentation and disclosure of financial assets and financial liabilities, including derivatives. The main features of the new standard are:

- Financial instruments are classified into two measurement categories: fair value, or cost or amortized cost.
 - Almost all derivatives, including embedded derivatives not closely related to the host contract, are measured at fair value.
 - Portfolio investments in equity instruments quoted in an active market are measured at fair value.
 - Other financial assets and financial liabilities are generally measured at cost or amortized cost.
 - An entity may elect to measure any group of financial assets or financial liabilities (or both) at fair value when the entity has a risk management or investment strategy to manage those items on a fair value basis.
- Remeasurement gains and losses on financial instruments measured at fair value are reported in the statement of remeasurement gains and losses until the financial instrument is derecognized.
- Budget to actual comparisons are not required within the statement of remeasurement gains and losses;
- Financial liabilities are derecognized when, and only when, they are extinguished.
- Financial assets and financial liabilities are only offset and reported on a net basis if a legally enforceable right to set off the recognized amounts exists, and the entity intends to settle on a net basis or realize/settle the amounts simultaneously.

In May 2012, the transitional provisions for this Section were amended, effective at the time the standard is initially applied, to clarify that the measurement provisions are applied prospectively. Adjustments to previous carrying amounts are recognized in opening accumulated remeasurement gains or losses. Additionally, a new transitional provision has been added that applies to government organizations transitioning from the standards in Part V of the CPA Canada Handbook – Accounting with items classified as available for sale. Accumulated other comprehensive income (OCI) from items classified as available for sale is recognized in accumulated remeasurement gains or losses on transition.

PS 3450 was to be effective for fiscal years beginning on or after April 1, 2019. In March 2018, the Public Sector Accounting Board (PSAB) approved an extension of the effective date to fiscal years beginning on or after April 1, 2021. On June 25, 2020, the PSAB made the decision to defer the effective date by one year due to the impact of the COVID-19 pandemic. The new Section and amendments are now effective for annual financial statements relating to fiscal years beginning on or after April 1, 2022. Early application continues to be permitted. In the period that a public sector entity applies PS 3450, it also applies PS 1201 and PS 2601.

New Assurance Developments

CAS 315 Identifying and Assessing the Risks of Material Misstatement (Amendment)

In May 2020, the Auditing and Assurance Standards Board (AASB) issued the revised CAS 315 *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and its Environment*, to align with the International Auditing and Assurance Standards Board's (IAASB) changes to International Standards on Auditing (ISA) 315 (revised), with the same title.

The revised CAS 315 incorporates changes to establish more robust requirements and detailed guidance to assist auditors in performing appropriate risk assessment procedures corresponding with the size and nature of the entity. It also includes changes to enhance the application of professional skepticism in audits. The revised CAS 315 accomplishes the following:

- Distinguishes the nature and extent of work needed for indirect and direct controls in the system of internal control;
- Clarifies which controls need to be identified for evaluating the design of a control, and determining whether the control has been implemented;
- Highlights scalability of the standard by keeping the principles-based requirements focused on what needs to be done, and using separate headings in the application material to illustrate scaling based on the complexity of the situation;
- Clarifies the definition of "significant risk" and introduces the concept of spectrum of inherent risk to assist the auditor in making a judgment, based on the likelihood and magnitude of a possible misstatement, on a range from higher to lower, when assessing risks of material misstatement;
- Introduces the concept of inherent risk factors, including complexity, subjectivity, change, uncertainty or susceptibility to misstatement due to management bias or other fraud risk factors insofar as they affect inherent risk;
- Introduces the concepts of "significant classes of transactions, account balances and disclosures" and "relevant assertions" to assist with the identification and assessment of the risk of material misstatement;
- Separates the assessment of inherent and control risk;
- Enhances the auditor's considerations regarding the entity's use of information technology and how it affects the audit, and includes considerations for using automated tools and techniques in the application material;
- Introduces a requirement to "stand back" to evaluate the completeness of the significant classes of transactions, account balances and disclosures at the end of the risk assessment process;
- Uses more explicit language and enhances requirements and application material to reinforce the importance of exercising professional skepticism when performing risk assessment procedures; and
- Clarifies the threshold for identifying possible risks of material misstatement in CAS 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Canadian Auditing Standards*.

As a result of issuing the revised CAS 315, requirements for several other standards have been amended to better articulate the auditor's responsibilities regarding identifying and assessing the risks of material misstatement:

- CAS 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*
- CAS 330 *The Auditor's Responses to Assessed Risks*
- CAS 402 *Audit Considerations Relating to an Entity Using a Service Organization*
- CAS 540 *Auditing Accounting Estimates and Related Disclosures*

The revised CAS 315 and other conforming amendments to other standards are effective for audits of financial statements for periods beginning on or after December 15, 2021. Earlier application is permitted.

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At MNP we're proud to be the national accounting, consulting and tax firm that is 100% Made in Canada.

Our history defines who we are and our approach to business. Being a Canadian firm has helped shape our values, our collaborative approach, and the way we work with our clients, engaging them every step of the way.

We have a unique perspective. Our decisions are made here – decisions that drive Canadian business and help us all achieve success — and we know the impact that our choices have on the cities and towns we call home.

Throughout our six decades of work, we've seen our communities are more than just a place we do business in. They're a place where our families live, play, and thrive, and we work to make them the best places they can be.

Being 100% Canadian is something we wear proudly. This country provides us with great opportunities, and we're here to help our clients seize the opportunities so we can create a brighter future for the generations to come.



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November 10, 2022

Mrs. Wiwcharuk
Comox-Strathcona Regional Hospital District
770 Harmston Avenue
Courtenay, BC V9N 0G8

Dear Mrs. Wiwcharuk:

This letter will confirm the arrangements discussed with you regarding the services MNP LLP ("we" or "MNP") will render to Comox-Strathcona Regional Hospital District (the "Hospital District") commencing with the fiscal year ending December 31, 2022.

Our responsibilities

We will audit the financial statements of Comox-Strathcona Regional Hospital District for the year ended December 31, 2022.

Our audit will be conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we will plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements taken as a whole are free of material misstatement, whether caused by fraud or error.

Our responsibilities, objective, scope, independence and the inherent limitations of an audit conducted in accordance with Canadian generally accepted auditing standards are detailed in Appendix A, which forms part of our mutual understanding of the terms of this engagement.

Management's responsibilities

The operations of the Hospital District are under the control of management, which has responsibility for the accurate recording of transactions and the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards. This includes the design, implementation and maintenance of the system of internal control relating to the preparation and presentation of the financial statements.

Appendix B, which describes in detail management's responsibilities with respect to this engagement, forms part of our mutual understanding of the terms of this engagement.

Reporting

Unless unanticipated difficulties are encountered, our report will be substantially in the form illustrated in Appendix C.

Fees and expenses

Our fees and expenses are discussed in detail in Appendix D.

MNP LLP

467 Cumberland Road, Courtenay BC, V9N 2C5

T: 250.338.5464 F: 250.338.0609

Other matters

Based on our firm's client acceptance and continuance procedures, we will make inquiries and require certain information from the Hospital District before final client acceptance is approved. We reserve the right to decline appointment if the results of our client acceptance procedures are not satisfactory.

We will, as permitted by the Rules of Professional Conduct, provide additional services upon request, in areas such as taxation, leadership and human resource management, communication, marketing, strategic planning, financial management and technology consulting.

Our standard terms and conditions, included as Appendix E, form part of our mutual understanding of the terms of this engagement. In the event that you choose to terminate this engagement based on the terms outlined in Appendix E, we reserve the right to notify all financial statement users of the change.

These terms will continue in effect from year to year, unless changed in writing.

We believe the foregoing correctly sets forth our understanding, but if you have any questions, please let us know. If you find the arrangements acceptable, please acknowledge your agreement to the understanding by signing and returning the engagement letter to us.

It is a pleasure for us to be of service to you. We look forward to many years of association with you and Comox-Strathcona Regional Hospital District.


Sincerely,

MNP LLP

MNP LLP
Chartered Professional Accountants

RESPONSE:

This letter correctly sets forth the understanding of Comox-Strathcona Regional Hospital District.

PLEASE SIGN HERE		CVRD CFO	November 17, 2022
	Officer Signature	Title	Date

Appendix A: Our Audit Responsibilities, Objective, Scope and Limitations

The following details our responsibilities as auditors and the objective, scope, independence and inherent limitations of an audit conducted in accordance with Canadian generally accepted auditing standards.

Our responsibilities, objective and scope

Our audit will be planned and performed to obtain reasonable assurance that the financial statements taken as a whole are free of material misstatement, whether caused by fraud or error. If any of the following matters are identified, they will be communicated to the appropriate level of management:

- Misstatements, resulting from error, other than immaterial misstatements;
- Fraud or any information obtained that indicates that a fraud may exist;
- Material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern;
- Any evidence obtained that indicates non-compliance or possible non-compliance with laws and regulations has occurred;
- Significant deficiencies in the design or implementation of controls to prevent and detect fraud or misstatements; and
- Related party transactions identified that are not in the normal course of operations and that involve significant judgments made by management concerning measurement or disclosure.

The matters communicated will be those that we identify during the course of our audit. Audits do not usually identify all matters that may be of interest to management in discharging its responsibilities. The type and significance of the matter to be communicated will determine the level of management to which the communication is directed.

Furthermore, we will consider the Hospital District's system of internal control over financial reporting for the purpose of identifying types of potential misstatement, considering factors that affect the risks of material misstatement, and determining the nature, timing and extent of auditing procedures necessary for expressing our opinion on the financial statements.

Independence

The Rules of Professional Conduct require that we are independent when conducting this engagement. We will communicate to the Board of Directors any relationships between the Hospital District (including related entities) and MNP that, in our professional judgment, may reasonably be thought to bear on our independence.

Further, we will confirm in writing our independence with respect to the Hospital District.

If matters should arise during this engagement that can reasonably be assumed to have impaired our independence, we may need to withdraw from this engagement.

Audit limitations

An audit involves performing procedures to obtain audit evidence regarding the amounts and disclosures in the financial statements. This includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation, structure and content of the financial statements, including disclosures.

Appendix A: Our Audit Responsibilities, Objective, Scope and Limitations *(continued from previous page)*

It is important to recognize that an auditor cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of factors such as the use of judgment, selective testing of data, inherent limitations of controls, and the fact that much of the audit evidence available is persuasive rather than conclusive in nature.

Furthermore, because of the nature of fraud, including attempts at concealment through collusion and forgery, an audit designed and executed in accordance with Canadian generally accepted auditing standards may not detect a material misstatement due to fraud.

While an effective system of internal control reduces the likelihood that misstatements will occur and remain undetected, they do not eliminate that possibility. Therefore, we cannot guarantee that fraud, misstatements and non-compliance with laws and regulations, if present, will be detected when conducting an audit in accordance with Canadian generally accepted auditing standards.

The audit of the financial statements and the issuance of our audit opinion are solely for the use of the Hospital District and those to whom our report is specifically addressed. We make no representations of any kind to any third party in respect of these financial statements and we accept no responsibility for their use by any third party. If our name is to be used in connection with the financial statements, you will attach our independent audit report when distributing the financial statements to third parties.

We ask that our names be used only with our consent and that any information to which we have attached a communication be issued with that communication unless otherwise agreed to by us.

Appendix B: Management Responsibilities

During the course of our audit, you will be required to provide and make available complete information that is relevant to the preparation and presentation of the financial statements, including:

- Financial records and related data, including data relevant to disclosures made in the financial statements;
- Copies of all minutes of meetings of directors and committees of directors;
- Access to personnel to whom we may direct our inquiries;
- Information relating to any known or possible instances of non-compliance with laws, legislative or regulatory requirements (including financial reporting requirements);
- Information relating to all related parties and related party transactions; and
- Allowing access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

Management's responsibility with respect to fraud and misstatement includes:

- The design and implementation of internal control for its prevention and detection;
- An assessment of the risk that the financial statements may be materially misstated;
- Disclosure of situations where fraud or suspected fraud involving management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements, have been identified or allegations have been made; and
- Communicating your belief that the effects of any uncorrected financial statement misstatements aggregated during the audit are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In accordance with Canadian generally accepted auditing standards, we will request a letter of representation from management at the close of our audit in order to confirm oral representations given to us and reduce the possibility of misunderstanding concerning matters that are the subject of the representations. These representations are used as evidence to assist us in deriving reasonable conclusions upon which our audit opinion is based.

If the Hospital District plans any reproduction or publication of our report, or a portion thereof, printer's proofs of the complete documents should be submitted to us in sufficient time for our review, prior to making such documents publicly available. It will also be necessary for you to furnish us with a copy of the printed report. Further, it is agreed that in any electronic distribution, for example on Comox-Strathcona Regional Hospital District's website, management is solely responsible for the accurate and complete reproduction of our report and the subject matter on which we reported, and for informing us of any subsequent changes to such documents. However, we are responsible to read the documents to ensure accuracy, and consider the appropriateness of other information accompanying the audited financial statements, upon initial posting.

Appendix C: Illustrative Independent Auditor's Report

To the Board of Comox-Strathcona Regional Hospital District:

Opinion

We have audited the financial statements of Comox-Strathcona Regional Hospital District (the "Hospital District"), which comprise the statement of financial position as at December 31, 2022, and the statements of operations and cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Hospital District as at December 31, 2022, and the results of its operations and its cash flows for the period then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Hospital District in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The current year's supplementary information, including schedules A to F, has been presented for purpose of additional analysis. The supplementary information in schedules A to E has been subjected to the auditing procedures applied in the financial statements and in our opinion, this supplementary information is presented fairly, in all material respects, in relation to the financial statements taken as a whole. We do not express an opinion on Schedule F because our examination did not extend to the detailed information therein.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Hospital District's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Hospital District or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Hospital District's financial reporting process.

Appendix C: Illustrative Independent Auditor's Report *(continued from previous page)*

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Hospital District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Hospital District's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Hospital District to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Courtenay, British Columbia

Chartered Professional Accountants

Appendix D: Fees and Expenses

Our fees are determined on the basis of time spent on the engagement at the tariff rates of various members of our team. Any disbursements will be added to the billing.

Our estimated fees are based on our past experience and our knowledge of the Hospital District. This estimate relies on the following assumptions:

- No significant deficiencies in the system of internal control which cause procedures to be extended;
- No major unadjusted misstatement(s) or un-reconciled balances;
- Significantly all adjusting entries are completed prior to the trial balance and journal entries being provided to the audit team;
- All management and required staff are available as needed;
- Information and working papers required, as outlined in our letter of fiscal year-end requirements, are provided in the mutually agreed form and timing; and
- There are no changes to the agreed upon engagement timetable and reporting requirements.

We will ask that your personnel, to the extent possible, prepare various schedules and analysis, and make various invoices and other documents available to our team. This assistance will facilitate the progress of our work and minimize the cost of our service to you.

If any significant issues arise during the course of our audit work which indicate a possibility of increased procedures or a change in the audit timetable, these will be discussed with management by the practitioner leading your engagement so a mutually agreeable solution can be reached. In accordance with our standard terms and conditions, included as Appendix E, if significant changes to the arrangements set forth in this engagement letter are required, any change in scope of the engagement will need to be agreed in writing, in a "Change Order" agreement.

Appendix E: Standard Terms and Conditions

The following standard terms and conditions and engagement letter to which they are attached form one agreement and set out the terms and conditions upon which MNP LLP ("MNP") will provide services to you (the "Hospital District").

1. **Timely Performance** - MNP will use all reasonable efforts to complete, within any agreed-upon time frame, the performance of the services described in the engagement letter to which these terms and conditions are attached. However, MNP shall not be liable for failures or delays in performance that arise from causes beyond our control, including the untimely performance by the Hospital District of its obligations as set out in the engagement letter.
2. **Right to Terminate Services** - The Hospital District may terminate the engagement upon 30 days written notice. If this occurs, the Hospital District shall pay for time and expenses incurred by MNP up to the termination date, together with reasonable time and expenses incurred to bring the services to a close in a prompt and orderly manner. Should the Hospital District not fulfil its obligations as set out herein and in the engagement letter, and in the event that the Hospital District fails to remedy such default within 30 days following receipt of notice from MNP to that effect, MNP may, upon written notification and without prejudice to its other rights and resources, terminate provision of our services as described in the engagement letter. In such case, MNP shall not be responsible for any loss, costs, expenses, or damages resulting from such termination.
3. **Change Order** - If, subsequent to the date of this engagement letter, the Hospital District requires significant changes to the arrangements set forth in this engagement letter, the Hospital District will be required to agree to the change in scope of the engagement in writing, in a "Change Order" agreement. The "Change Order" agreement will set forth the revised arrangements and scope of services to be performed and any related additional fees associated.
4. **Fees** - Any fee estimates by MNP take into account the agreed-upon level of preparation and assistance from the Hospital District's personnel. MNP undertakes to advise the Hospital District's management on a timely basis should this preparation and assistance not be provided, or should any other circumstances arise which cause actual time to exceed the estimate.
5. **Administrative Expenses** - Administrative expenses include costs such as long distance telephone and telecommunication charges, photocopying, delivery, postage, and clerical assistance. These expenses are based on a percentage of our fees for professional services 5%. Where applicable, federal, provincial, or other goods and services or sales taxes have been paid on these expenses. Other major costs such as travel, meals, accommodation and other significant expenses will be charged as incurred.
6. **Billing** - Bills will be rendered on a regular basis as the assignment progresses. Accounts are due and payable upon receipt. Interest may be charged on the balance of any accounts remaining unpaid for more than 30 days, at a rate of 1.5% per month (19.56% per annum).
7. **Taxes** - All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. The Hospital District shall assume and pay any such taxes or duties, without deduction from the fees and charges hereunder.

Appendix E: Standard Terms and Conditions *(continued from previous page)*

8. **Governing Law** - The engagement will be governed and construed in accordance with the laws of the Province of British Columbia, and shall be deemed in all respects to be a British Columbia contract. The Hospital District and MNP submit to the courts of that jurisdiction with respect to all matters arising under or by virtue of this Agreement.
9. **Working Papers** - MNP owns all working papers and files, other materials, reports and work created, developed or performed during the course of the engagement, including intellectual property used in the preparation thereof. We will provide management with a copy of all practitioner-prepared working papers necessary for the Hospital District's accounting records. MNP may develop software, including spreadsheets, documents, databases, and other electronic tools, to assist us with our assignment. As these tools and working papers were developed specifically for our purposes and without consideration of any purpose for which the Hospital District might use them, any such tools which may be provided to the Hospital District, will be made available on an "as is" basis only, at our discretion, and should not be distributed to or shared with any third party. Except as indicated in the Rules of Professional Conduct or by any legal proceeding, we have no responsibility to share our working papers with you or with any other parties.
10. **Data and Privacy** - The Hospital District understands and agrees that you shall not provide us with information about any identifiable individual unless required for the purpose of the engagement, and in such event the Hospital District shall only provide such information in compliance with applicable law, including obtaining consent where so required. Data received by MNP may be disclosed to vendors whose services are utilized by us in connection with the engagement. Some of these vendors are located outside Canada. Others, though located in Canada, may store or process your information outside the country. Data being uploaded and downloaded via vendor networks may reside on or transit servers located in or outside of Canada and in such cases, vendors may on occasion be required to disclose data in its custody to authorities of those jurisdictions. Additionally, in order to provide valuable insights on financial and other trends either (a) within your specific business organization over time, or (b) on an aggregated basis across an entire industry or sector, MNP may use relevant portions of data it receives from the Hospital District for the purpose of conducting individualized (using your data only, for your eyes only) and aggregated analytics (using many data sources). Analytics involves the processing of anonymized data sets to draw conclusions about the information they contain. Even when using aggregated data sources, we only perform analytics on data that is disassociated from the identity of its source. None of the analysis generated from aggregated data processing contains any information which would identify those specific individuals or entities from which the underlying information was obtained. As such, none of the analytics reporting based on aggregated data will result in a disclosure of personal information. Finally, the Hospital District acknowledges that our client files must be periodically reviewed by provincial or national practice inspectors and by other Firm personnel to ensure we are adhering to professional and Firm standards. MNP's privacy policy is posted on our website at <https://www.mnp.ca/en/privacy-policy> and may be updated from time to time.

Appendix E: Standard Terms and Conditions *(continued from previous page)*

11. **Nature of the Limited Liability Partnership (LLP)** – MNP is a registered limited liability partnership, as permitted by legislation enacted in our governing jurisdiction of the Province of Alberta. This legislation provides that a partner of an LLP is not personally liable for any of the debts, obligations, or liabilities of the LLP or any of the other partners which may arise as a result of any negligent act or omission of another partner of the LLP, or by any employee of the partnership, unless such act or omission is committed by the partner him or herself or by a person under the partner's direct supervision and control. All partners of an LLP remain personally liable for any acts or omissions arising as a result of their own negligence, and for the acts or omissions of those directly under their supervision or control, and shall continue to be subject to unlimited personal liability for all of the other liabilities of the partnership. The legislation does not reduce or limit in any way the liability of the partnership itself, and all of the partnership's assets and insurance coverage remain at risk.

12. **Release and Limitation of Liability** – The Hospital District and MNP agree to the following with respect to MNP's liability to the Hospital District:

In any action, claim, loss or damage arising out of the engagement, the Hospital District agrees that MNP's liability will be several and not joint and the Hospital District may only claim payment from MNP of MNP's proportionate share of the total liability based on the degree of fault of MNP as finally determined by a court of competent jurisdiction.

Other than for matters finally determined to have resulted from the gross negligence, fraud or willful misconduct of MNP, whether the claim be in tort, contract, or otherwise:

- i. MNP shall not be liable to the Hospital District and the Hospital District releases MNP for all claims, damages, costs, charges and expenses (including legal fees and disbursements) incurred or suffered by the Hospital District related to, arising out of, or in any way associated with the engagement to the extent that the aggregate of such amounts is in excess of the total professional fees paid by the Hospital District to MNP in connection with this engagement during the 12 month period commencing from the date of the engagement letter to which these terms and conditions are attached; and,
- ii. MNP shall not be liable to the Hospital District for any consequential, indirect, lost profit or similar damages, or failure to realize expected savings, relating to MNP's services provided under the engagement letter to which these terms and conditions are attached.

Appendix E: Standard Terms and Conditions *(continued from previous page)*

13. **Indemnity** - The Hospital District agrees to jointly and severally indemnify and hold harmless MNP against:
- a. All claims, damages, costs, charges and expenses (including legal fees and disbursements) which are related to, arise out of, or are in any way associated with the engagement, whether the claims are civil, penal, regulatory, or administrative in nature, other than those finally determined by a court of competent jurisdiction to have resulted from MNP's gross negligence, fraud or willful misconduct; and,
 - b. Notwithstanding "a.," all claims, damages, costs, charges and expenses (including legal fees and disbursements) which are related to, arise out of, or are in any way associated with the engagement, whether the claims are civil, penal, regulatory, or administrative in nature, that arise from or are based on any deliberate misstatement or omission in any material, information or representation supplied or approved by any officer or member of the Board of Directors of the Hospital District.

For the purposes of paragraph 12. and 13., "MNP" shall mean MNP LLP and its directors, officers, partners, professional corporations, employees, subsidiaries and affiliates and to the extent providing services under the engagement letter to which these terms are attached, MNP LLP, its member firms, and all of their partners, principals, members, owners, directors, staff and agents; and in all cases any successor or assignee.

14. **Survival of Terms** - The Hospital District and MNP agree that clauses 12. and 13. will survive termination of the engagement.
15. **Electronic Communications** - Unless the Hospital District prefers we use a particular manner of communication and specifies as much in writing, MNP will use whatever form of communication it deems most efficient in the circumstances. In many instances, this will involve the use of internet e-mail. With respect to internet e-mail, MNP and the Hospital District both acknowledge that neither party has control over the performance, reliability, availability, or security of internet e-mail. Additionally, MNP staff may be required or requested to work from your offices during which visits access to and use of and reliance upon your electronic environment (including but not limited to, your network, Internet, and extranet resources) is necessitated. The Hospital District accepts that MNP shall not be liable for any loss, damage, expense, harm or inconvenience resulting from any loss, delay, interception, corruption, security breach, delivery failure, incompatibility, incompleteness or alteration of any document or transmission arising from the use of e-mail or the transmission of any document outside of MNP's electronic environment.

Appendix E: Standard Terms and Conditions *(continued from previous page)*

16. **Confirmation.com** - By signing this engagement letter, you agree to the use by MNP of Capital Confirmation Inc. ("CCI") as a third party service provider and the use of CCI's platform (the "Platform") to prepare, request and receive confirmations required to perform the engagement. You acknowledge and agree that data being uploaded/downloaded via the Platform may reside on servers located in the United States and that CCI could be required to disclose data, including personal information, in its custody to the United States government, government agencies, courts or law enforcement or regulatory agencies pursuant to the laws of the United States. MNP shall not be liable for any loss or damage arising from your or MNP's use of CCI as a service provider or use of the Platform, including any losses relating to CCI's collection, use, disclosure or loss of your data or personal information. You agree to pay all fees for requesting and receiving confirmations. For more information, you can review the third party service provider's Terms and Conditions and Privacy Policy on CCI's website at: <https://www.confirmation.com/>.
17. **Praxity** - We are an independent accounting firm allowed to use the name "PRAXITY" in relation to our practice. We are not connected by ownership to any other firm using the name "PRAXITY" and we will be solely responsible for all work carried out by us on your behalf. In deciding to instruct us you acknowledge that we have not represented to you that any other firm using the name "PRAXITY" will in any way be responsible for the work we do.
18. **Solicitation** - The Hospital District agrees that for a period of one year after completion of the services, it shall not, directly or indirectly, for itself or for any third party, solicit the services of, hire, contract for the services of, or otherwise entice away from their partnership, employment or contract of services with MNP or any MNP Person. In the event of a breach of this section by the Hospital District, the Hospital District shall be obliged to pay to MNP liquidated damages in the amount of one hundred fifty (150%) percent of the total compensation the Hospital District or third party offered to pay the individual in their first year of service to such party, or one hundred fifty (150%) percent of total compensation the Hospital District or third party actually paid to the individual in their first year of service to such party, whichever is greater. The Hospital District further understands that any breach by the Hospital District of this provision may result in a threat to our independence which may prevent us from accepting or continuing any engagement to provide assurance services to the Hospital District. "MNP Person" means any and all partners, employees and contractors providing services to MNP, whether for a defined or indefinite period or on a part-time or full-time basis, and with whom the Hospital District had contact during the term of this engagement.