



Staff Report

DATE: February 27, 2017

FILE: H-FI

TO: Chair and Directors
Comox Strathcona Regional Hospital board

FROM: Debra Oakman
Chief Administrative Officer

RE: **Audit service plan for the year ending December 31, 2016**

Purpose/Problem

To present the 2016 audit service plan as submitted by MNP LLP, audit firm for the Comox-Strathcona Regional Hospital District (CSRHD).

Policy Analysis

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

History/Background Factors

At the October 2016 meeting of the CSRHD board, the firm of MNP LLP was appointed as the auditor for the CSRHD. As such, MNP LLP has prepared the attached 2016 audit service plan for the board's review (Appendix A).

An audit findings report will be received and presented to the board once the audit for 2016 has been completed.

The regional hospital district board exercises its independent authority relating to the external auditor by receiving and reviewing:

1. The annual audit service plan; and
2. The annual audit findings report.

Recommendation from the chief administrative officer:

THAT the 2016 audit service plan be received.

Respectfully submitted:

D. Oakman

Debra Oakman, CPA, CMA
Chief Administrative Officer

Prepared by:

B. Dunlop

Beth Dunlop, CPPB, CPA, CGA
Corporate Financial Officer

Attachment: Appendix A – “CSRHD Audit Service Plan, year ending December 31, 2016”, prepared by MNP LLP, dated February 23, 2017

Comox-Strathcona Regional Hospital District
Audit Service Plan

Year Ending December 31, 2016

For presentation at the Board of Directors Meeting

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February 23, 2017

Members of the Board of Directors of Comox-Strathcona Regional Hospital District

Dear Directors:

We are pleased to assume the appointment as auditors of Comox-Strathcona Regional Hospital District (the "Hospital District").

This summary Audit Service Plan is for the use of MNP LLP ("MNP"), the Hospital District's Board of Directors, and members of the Hospital District's management and staff, and is designed to document the overall approach and the general arrangements for the conduct of our fiscal year audit.

The plan should assist the Board of Directors and management in understanding the approach to the year audit.

AUDIT OBJECTIVES AND RESPONSIBILITIES

Our objective and responsibility as auditors of the Hospital District is to report to the directors whether the annual financial statements present fairly, in all material respects, the financial position of the Hospital District and its results of operations and cash flows, in accordance with Canadian public sector accounting standards.

AUDITORS' RESPONSIBILITIES

Our audit is designed to provide reasonable, but not absolute, assurance. The audit process involves testing only selected data and is subject to the limitation that material misstatements, fraud, or non-compliance with laws and regulations may not be detected. This results from the limitations inherent to internal control, including faulty human judgment in decision-making, human error and the possibility of management override or collusion, especially where fraud is perpetrated by management, where collusion or forgery are employed, or where controls are not effective. In addition, the work performed by auditors requires significant judgment regarding the gathering of evidence and the drawing of conclusions based on the audit evidence acquired; most audit evidence acquired is persuasive rather than conclusive. We will inform you of any such items discovered during our audit; however, our concern is with material misstatements, and thus, we are not responsible for the detection of misstatements that are not material to the financial statements taken as a whole.

We will consider the Hospital District's internal control as part of the financial statement audit. This includes obtaining an understanding of the internal control activities and any effect they may have on the audit regardless of whether they are relevant to the audit; evaluating the design of those controls; and determining whether they have been implemented. This understanding is sufficient to allow us to identify and assess the risks of material misstatement of the financial statements and to design and perform audit procedures. We are not, however, required to determine whether relevant controls are operating effectively, and as such, our understanding of internal controls should not be relied upon for any other purposes.

MANAGEMENT'S RESPONSIBILITIES

Management is responsible for the preparation and fair presentation of the financial statements and notes, including the initial selection of and changes to significant estimates and accounting policies, in accordance with Canadian public sector accounting standards. This responsibility includes creating and maintaining policies, financial reporting systems and controls, including those designed to prevent and detect fraud and misstatement, and, ensuring regulatory compliance. Management is required to provide an adequate description of their selected applicable financial reporting framework on which the financial statements are based.

During the course of our audit, management 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, and copies of all minutes of meetings of directors and committees of directors. As well, information relating to any known or probable instances of non-compliance with legislative or regulatory requirements (including financial reporting requirements), illegal or possibly illegal acts and all related parties and related party transactions will need to be provided. Management will be required to allow access to those within the entity from whom the auditor determines it necessary to obtain audit evidence.

In accordance with Canadian generally accepted auditing standards, we will request a letter of representation from management at the close of our examination in order to confirm oral representations given to us and reduce the possibility of misunderstanding concerning matters that are the subject of the representations. Specifically, we will request written confirmation of significant representations provided on matters that are directly related to items that are material, either individually or in the aggregate, to the financial statements; not directly related to items that are material to the financial statements, but are significant, either individually or in the aggregate, to the engagement; and matters relevant to judgments or estimates that are material, either individually or in the aggregate, to the financial statements. These representations are used as evidence to assist us in deriving reasonable conclusions upon which our audit opinion is based.

BOARD OF DIRECTORS RESPONSIBILITIES

The Board of Directors is responsible for approval of the financial statements and Hospital District policies, and for monitoring management's performance. The Board of Directors should consider the potential for management override of controls or other inappropriate influences, such as earnings management, over the financial reporting process. The Board of Directors, together with management, is also responsible for the integrity of the accounting and financial reporting systems, including controls to prevent and detect fraud and misstatement, and to monitor compliance with relevant laws and regulations.

Effective discharge of these respective responsibilities is directed toward a common duty to provide appropriate and adequate financial accountability, and quality financial disclosure.

OVERALL AUDIT STRATEGY

Our overall audit strategy is risk-based and controls-oriented. Identification and assessment of risks having a potential impact on the financial accounting systems and consequent financial reporting is performed continuously throughout the audit process.

Our overall audit strategy does not, and is not intended to, involve the authentication of documents, nor are our team members trained or expected to be experts in such authentication. Unless we have reason to believe otherwise, we accept records and documents as genuine. The subsequent discovery of a material misstatement resulting from fraud does not, in and of itself, indicate a failure to comply with Canadian generally accepted auditing standards.

We will identify and assess the risk of material misstatement within the financial statements by updating our understanding of the entity and its environment, including examining and assessing controls and systems, the evidence supporting amounts and disclosures in the statements, and the appropriateness of accounting principles and significant estimates. This will be accomplished through inquiries with management and others within the entity, analytical procedures, and observation and inspection. Further, we will consider whether effective controls have been established to adequately respond to the risks arising from the use of IT or manual systems. Our review of the Hospital District's controls will not be sufficient to express an opinion as to their effectiveness or efficiency.

For the year audit, we are planning to place low reliance on the Hospital District's accounting systems. Our audit work will involve mainly substantive tests of transactions and balances. Substantive work may be reduced if tested controls are effective for some, or all, of the current year.

Based on the preliminary risk assessment procedures performed, we have identified the following significant risks which will be addressed during our audit. We have also outlined the proposed audit response to address those risks. We will update our risk assessment as the audit progresses for additional risks identified and will inform management of any additional significant risks identified.

Materiality, determined according to our professional judgment, will be used to assess the significance of identified misstatements or omissions, and to determine the level of audit testing carried out. Specifically, a misstatement or the aggregate of all misstatements in the financial statements is considered to be material, if it is probable that the decision of the party relying on the financial statements, who has a reasonable understanding of business and economic activities, will be changed or influenced by such a misstatement or the aggregate of all misstatements.

We propose to use \$700,000 as overall materiality for audit planning purposes.

YOUR NEEDS AND EXPECTATIONS AND THE PLANNED MNP RESPONSE

To fulfill our commitment to provide you with the highest level of professional service, we will:

- Inform you of any new or proposed accounting and auditing pronouncements relevant to your financial reporting, so that we can plan for their effect and assist in their implementation.
- Communicate relevant matters to the Board of Directors, including our Audit Service Plan and Audit Findings.
- Provide ongoing business, taxation, and accounting and financial reporting advice, and assist management as requested, when transactions or issues arise.
- Opine on the fair presentation of the audited financial statements to be issued.
- Provide our recommendations with regard to controls and administrative efficiencies.

TIMING OF THE AUDIT

Based on the audit planning performed and areas of audit risks identified, the following timelines for key deliverables have been discussed and agreed upon with management:

KEY DELIVERABLE	EXPECTED DATE
Delivery of December 31, 2016 Audit Service Plan to the Board of Directors	February 2017
Year-end fieldwork procedures	March 2017
Draft year-end financial statements to be discussed with management	March 2017
Presentation of December 31, 2016 Audit Findings Report to the Board of Directors	April 2017
Issuance of Independent Auditors' Report	April 2017

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:

NAME	POSITION
Cory Vanderhorst, CPA, CA	Engagement Partner
Chris Fyfe, CPA, CA or Debbie Bass, CPA, CA	Concurring Partner
James Kungel, CPA, CA	Tax Partner
Janna Olynyk, CPA, CA	Manager
Laurel Koorn	Audit Junior

In order to serve you better and meet our professional responsibilities, we may find it necessary to expand our audit team to include other MNP 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.

FEES AND ASSUMPTIONS

Our estimated audit fee for the year ended December 31, 2016, exclusive of applicable taxes and disbursements, is \$4,000.

Our estimated audit fees above are based on our past experience and our knowledge of the Corporation. These estimated fees rely on the following assumptions:

- No significant deficiencies in internal controls which cause procedures to be extended
- No major unadjusted misstatements or un-reconciled balances
- Significantly all adjusting entries are completed prior to trial balance and journal entries being provided to 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
- There are no changes to the agreed upon audit timetable and reporting requirements

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.

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.

NEW AND PROPOSED REPORTING DEVELOPMENTS

PS 2200 Related Party Disclosures (New)

In March 2015, the Public Sector Accounting Board (PSAB) issued a new standard, *PS 2200 Related Party Disclosures*.

This new Section defines a related party and established disclosures required for related party transactions. Disclosure of information about related party transactions and the relationship underlying them is required when they have occurred at a value different from that which would have been arrived at if the parties were unrelated, and they have, or could have, a material financial effect on the financial statements.

This Section is effective for fiscal years beginning on or after April 1, 2017. Early adoption is permitted.

PS 3210 Assets (New)

In June 2015, new *PS 3210 Assets* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section provides guidance for applying the definition of assets set out in *PS 1000 Financial Statement Concepts*. The main features of this standard are as follows:

- Assets are defined as economic resources controlled by a government as a result of past transactions or events and from which future economic benefits are expected to be obtained.
- Economic resources can arise from such events as agreements, contracts, other government's legislation, the government's own legislation, and voluntary contributions.
- The public is often the beneficiary of goods and services provided by a public sector entity. Such assets benefit public sector entities as they assist in achieving the entity's primary objective of providing public goods and services.

- A public sector entity's ability to regulate an economic resource does not, in and of itself, constitute control of an asset, if the interest extends only to the regulatory use of the economic resource and does not include the ability to control access to future economic benefits.
- A public sector entity acting as a trustee on behalf of beneficiaries specified in an agreement or statute is merely administering the assets, and does not control the assets, as future economic benefits flow to the beneficiaries.
- An economic resource may meet the definition of an asset, but would not be recognized if there is no appropriate basis for measurement and a reasonable estimate cannot be made, or if another Handbook Section prohibits its recognition. Information about assets not recognized should be disclosed in the notes.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3320 Contingent Assets (New)

In June 2015, new PS 3320 *Contingent Assets* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section establishes disclosure standards on contingent assets. The main features of this standard are as follows:

- Contingent assets are possible assets arising from existing conditions or situations involving uncertainty. That uncertainty will ultimately be resolved when one or more future events not wholly within the public sector entity's control occurs or fails to occur. Resolution of the uncertainty will confirm the existence or non-existence of an asset.
- Passing legislation that has retroactive application after the financial statement date cannot create an existing condition or situation at the financial statement date.
- Elected or public sector entity officials announcing public sector entity intentions after the financial statement date cannot create an existing condition or situation at the financial statement date.
- Disclosures should include existence, nature, and extent of contingent assets, as well as the reasons for any non-disclosure of extent, and the bases for any estimates of extent made.
- When a reasonable estimate can be made, disclosure should include a best estimate and a range of possible amounts (or a narrower range of more likely amounts), unless such a disclosure would have an adverse impact on the outcome.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3380 Contractual Rights (New)

In June 2015, new PS 3380 *Contractual Rights* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). This new Section establishes disclosure standards on contractual rights, and does not include contractual rights to exchange assets where revenue does not arise. The main features of this standard are as follows:

- Contractual rights are rights to economic resources arising from contracts or agreements that will result in both an asset and revenue in the future.
- Until a transaction or event occurs under a contract or agreement, an entity only has a contractual right to an economic resource. Once the entity has received an asset, it no longer has a contractual right.
- Contractual rights are distinct from contingent assets as there is no uncertainty related to the existence of the contractual right.
- Disclosures should include descriptions about nature, extent, and timing.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3420 Inter-entity Transactions (New)

In March 2015, the Public Sector Accounting Board (PSAB) issued new PS 3420 *Inter-entity Transactions*.

The new Section establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. The main features of the new Section are:

- Under a policy of cost allocation, revenues and expenses are recognized on a gross basis.
- Transactions are measured at the carrying amount, except in specific circumstances.
- A recipient may choose to recognize unallocated costs for the provision of goods and services and measure them at the carrying amount, fair value or other amount dictated by policy, accountability structure or budget practice.
- The transfer of an asset or liability for nominal or no consideration is measured by the provider at the carrying amount and by the recipient at the carrying amount or fair value.
- Inter-entity transactions are considered in conjunction with PS 2200 *Related Party Disclosures*.

The standard is effective for fiscal years beginning on or after April 1, 2017. Earlier adoption is permitted.

PS 3430 Restructuring Transactions (New)

In June 2015, new PS 3430 *Restructuring Transactions* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new Section establishes disclosure standards on contingent assets. The main features of this standard are as follows:

- A restructuring transaction is defined separately from an acquisition. The key distinction between the two is the absence of an exchange of consideration in a restructuring transaction.
- A restructuring transaction is defined as a transfer of an integrated set of assets and/or liabilities, together with related program or operating responsibilities that does not involve an exchange of consideration.
- Individual assets and liabilities transferred in a restructuring transaction are derecognized by the transferor at their carrying amount and recognized by the recipient at their carrying amount with applicable adjustments.
- The increase in net assets or net liabilities resulting from recognition and derecognition of individual assets and liabilities received from all transferors, and transferred to all recipients in a restructuring transaction, is recognized as revenue or as an expense.
- Restructuring-related costs are recognized as expenses when incurred.
- Individual assets and liabilities received in a restructuring transaction are initially classified based on the accounting policies and circumstances of the recipient at the restructuring date.
- The financial position and results of operations prior to the restructuring date are not restated.
- Disclosure of information about the transferred assets, liabilities and related operations prior to the restructuring date by the recipient is encouraged but not required.

The Section is effective for new restructuring transactions that occur in fiscal periods beginning on or after April 1, 2018. Earlier application is permitted.

Unification of the Accounting Profession

In September 2015, the unification of Canada's accounting profession into one single national body was finalized. As a result, MNP's banner has changed from Chartered Accountants to Chartered Professional Accountants.

AUDITOR INDEPENDENCE

In accordance with our firm's policy, and the Rules of Professional Conduct governing our profession, neither MNP nor any of its engagement team, nor any MNP partners, are permitted to have any relationship with the Hospital District that would impair independence or give that appearance. As auditors, we are required to annually discuss our independence with the Board of Directors, to disclose, in writing, all relationships between the auditor and the Hospital District that may reasonably be thought to bear on our independence, and to confirm our independence and objectivity.

CONFIRMATION OF INDEPENDENCE

We are not aware of any relationships between our Firm and the Hospital District during the year that, in our professional judgment, may reasonably be thought to bear on our independence. We hereby confirm that we are independent auditors with respect to the Hospital District.

During the course of the audit, we will communicate any significant new matters that come to our attention that, in our professional judgment, may reasonably be thought to bear on our independence. At the completion of our audit, we will reconfirm our independence.

We look forward to discussing with you the matters addressed above. We will be prepared to answer any questions you may have regarding our independence, as well as any other matters of interest to you.

Sincerely,

A handwritten signature in black ink that reads "MNP LLP". The letters are stylized and slanted to the right.

MNP LLP
Chartered Professional Accountants