



Staff Report

DATE: January 6, 2021

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, 2020

Purpose

To present the 2020 audit service plan for the Comox Strathcona Regional Hospital District (CSRHD) to the Board as submitted by the audit firm of MNP LLP.

Recommendation from the Chief Administrative Officer:

This report is provided for information.

Executive Summary

- MNP LLP has prepared the attached 2020 audit service plan (Appendix A) for the CSRHD Board's review including the engagement letter (Appendix B).
- The audit service plan covers the audit for the CSRHD from January 1, 2020 to December 31, 2020 fiscal period. The plan identifies an overview of the audit approach, proposed engagement team, the scope of the audit, and the expected timeline for deliverables.
- Additionally, the audit service plan identifies any upcoming changes to accounting standards that will affect the financial statements as well as changes to audit standards. The upcoming changes noted do not have a significant impact on CSRHD given the entity does not own any infrastructure assets.
- A final audit report will be presented to the Board with the draft financial statements once the audit is complete in the spring of 2020. The current timelines noted aligns with the Comox Valley Regional District (CVRD) audit, however the expectation is that CSRHD will be completed and presented to Board in March or April of 2021.
- The CSRHD Board exercises its independent authority relating to the external auditor by receiving and reviewing the annual audit service plan and the final audit report.

Prepared by:

M. Foort

Myriah Foort, BBA, CPA, CA
Chief Financial Officer

Background / Current Situation

The attached audit service plan for the CSRHD as prepared by the appointed audit firm of MNP LLP provides an overview of the audit approach, the proposed engagement team, the scope of the audit and the timeline for the deliverables. The report also includes information regarding potential changes in reporting developments that may impact the audit scope or the financial statement presentation.

Highlights in the audit service note the change in Corporate Financial Officer in 2020 with the retirement of the long-time incumbent Beth Dunlop, as well as COVID protocols in place which have resulted in remote audit engagements where possible. The interim audit was completed in November 2020 for CSRHD mostly through remote activities and the utilization of the MNP portal and there were no concerns identified to complete required duties. As noted, the upcoming accounting standard and audit changes are expected to have limited impact on CSRHD.

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 recognizes the Board's authority by submitting the 2020 audit service plan to the Board and preparing an audit findings report for the Board upon completion of the 2020 audit.

Options

Not relevant

Financial Factors

The audit fees of \$4,300 (2019 - \$4,200) noted in the audit service plan is consistent with the fees proposed by MNP LLP in their 2016-2020 audit engagement term. The proposal for audit services for the period 2021-2025 will be issued in mid-2021 to ensure an auditor is in place for the fall of 2021 for the interim audit that occurs typically in November of each year.

Legal Factors

Not relevant.

Intergovernmental Factors

Not relevant.

Citizen/Public Relations

Not relevant.

Attachments:

Appendix A – Comox Strathcona Regional Hospital District, Audit Service Plan, Year ending December 31, 2020

Appendix B – Comox Strathcona Regional Hospital District, Engagement Letter, Year ending December 31, 2020



Comox-Strathcona Regional Hospital District

2020 Audit Service Plan

Report to the Board of Directors

December 31, 2020

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, 2020 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.

Our audit will include an audit of the Hospital District's financial statements for the year ended December 31, 2020, prepared in accordance with Canadian public sector accounting standards. Our audit will be conducted in accordance with Canadian generally accepted auditing standards.

At MNP, our objective is to perform an efficient, high quality audit which focuses on those areas that are considered higher risk. We adhere to the highest level of integrity and professionalism. We are dedicated to maintaining open channels of communication throughout this engagement and will work with management to coordinate the effective performance of the engagement. Our goal is to exceed the Board of Directors' expectations and ensure you receive outstanding service.

Additional materials provided along with this plan include 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; and
- Concerns expressed by management.





We propose to use \$675,000 as overall materiality for audit planning purposes.

AUDITOR'S APPROACH TO INTERNAL CONTROL

For the December 31, 2020 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
 ENTITY SPECIFIC	The previous Corporate Financial Officer, Beth Dunlop, retired in June 2020, and the current Corporate Financial Officer, Myriah Foort, started with the Regional District July 2020.
 NEW REPORTING DEVELOPMENTS	<ul style="list-style-type: none"> PS 3280 Asset Retirement Obligations (New)* PS 3400 Revenue (New)
 NEW ASSURANCE DEVELOPMENTS	<ul style="list-style-type: none"> CAS 540 Auditing Accounting Estimates and Related Disclosures (New)
 IMPACT OF COVID-19 ON OUR AUDIT	COVID protocols

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

*Please note that adoption of PS 3280 has been delayed one year and is now effective for fiscal years beginning on or after April 1, 2022.

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:

TEAM MEMBERS	CONTACT INFORMATION
Cory Vanderhorst, CPA, CA, Engagement Partner	E: Cory.Vanderhorst@mnp.ca
Graham Roberts, CPA, CA, Senior Manager	E: Graham.Roberts@mnp.ca
James Kungel, CPA, CA, Tax Partner	E: James.Kungel@mnp.ca
Jane Lumb, CPA, Manager	E: Jane.Lumb@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 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.

TIMING OF THE AUDIT

KEY DELIVERABLE	EXPECTED DATE
Year-end fieldwork procedures	April 12, 2021 to April 16, 2021
Draft year-end financial statements to be discussed with management	May 2021
Presentation of December 31, 2020 Audit Findings Report to the Board of Directors	May 2021
Presentation of Management Letter to the Board of Directors	May 2021
Issuance of Independent Auditor's Report	May 2021

FEES AND ASSUMPTIONS

DESCRIPTION	2020 ESTIMATE	2019 ACTUAL
Base audit fee	\$ 4,300	\$ 4,200

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. Our audit fee quote above is based on an estimate of 40 hours of audit and bookkeeping work. Significant delays in responding to requests for information may result in additional fees.

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 3280 Asset Retirement Obligations (New)*

In August 2018, new PS 3280 *Assets Retirement Obligations* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS 3280 establishes standards on how to account for and report a liability for asset retirement obligations (ARO). As asset retirement obligations associated with landfills are included in the scope of new PS 3280, PS 3270 *Solid Waste Landfill Closure and Post-Closure Liability* will be withdrawn.

The main features of this standard are as follows:

- An ARO represents a legal obligation associated with the retirement of a tangible capital asset.
- Asset retirement costs increase the carrying amount of the related tangible capital asset and are expensed in a rational and systematic manner.
- When an asset is no longer in productive use, the associated asset retirement costs are expensed.
- Measurement of the ARO liability should result in the best estimate of the amount required to retire a tangible capital asset at the financial statement date.
- Subsequent measurement of the ARO liability results in either a change in the carrying amount of the related tangible capital asset or an expense. The accounting treatment depends on the nature of the remeasurement and whether the asset remains in productive use.
- The best method to estimate the liability is often a present value technique.

This standard is effective for fiscal years beginning on or after April 1, 2022. Early adoption is permitted.

PS 3400 Revenue (New)

In November 2018, new PS 3400 *Revenue* was included in the CPA Canada Public Sector Accounting Handbook (PSA HB). The new PS 3400 establishes standards on how to account for and report on revenue by distinguishing between revenue arising from transactions that include performance obligations and transactions that do not have performance obligations. The main features of this Section are as follows:

- Performance obligations are enforceable promises to provide specific goods or services to a specific payor.
- Performance obligations can be satisfied at a point in time or over a period of time.
- The new standard outlines five indicators to determine if the revenue would be recognized over a period of time.
- Revenue from a transaction with a performance obligation(s) is recognized when, or as, the entity has satisfied the performance obligation(s).
- Revenue from transactions with no performance obligation is recognized when a public sector entity has the authority to claim or retain an inflow of economic resources and a past event that gives rise to a claim of economic resources has occurred.

Further editorial changes have also been made to other standards as a result of the issuance of PS 3400.

This Section is effective for fiscal years beginning on or after April 1, 2022. Early adoption is permitted.

NEW ASSURANCE DEVELOPMENTS

CAS 540 Auditing Accounting Estimates and Related Disclosures (New)

In March 2019, the Auditing and Assurance Standards Board (AASB) revised and replaced CAS 540 *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. The revised CAS 540 incorporates changes to establish more robust requirements and appropriately detailed guidance to foster audit quality by driving auditors to perform appropriate procedures in relation to accounting estimates and related disclosures.

This revised CAS:

- Introduces the concept of inherent risk factors, including estimation uncertainty, complexity, subjectivity and others;
- Introduces a separate assessment of inherent risk and control risk for accounting estimates;
- Explicitly recognizes the spectrum of inherent risk;

APPENDIX A – KEY CHANGES AND DEVELOPMENTS (continued from previous page)

- Enhances requirements for risk assessment procedures related to obtaining an understanding of the entity and its environment, including internal control;
- Introduces objectives-based work effort requirements to design and perform further audit procedures to respond to assessed risks of material misstatement;
- Enhances the “stand-back” requirements by adding an evaluation of corroborative and contradictory audit evidence obtained regarding the accounting estimates;
- Enhances requirements to obtain audit evidence about whether the disclosures are reasonable; and
- Includes a requirement to consider matters regarding accounting estimates when communicating with those charged with governance.

As a result of issuing revised CAS 540, the following standards have been amended to clarify the auditor’s responsibilities regarding auditing accounting estimates and related disclosures:

- CAS 500 *Audit Evidence*;
- CAS 700 *Forming an Opinion and Reporting on Financial Statements*; and
- CAS 701 *Communicating Key Audit Matters in the Independent Auditor’s Report*.

Further editorial changes have also been made to other standards as a consequence of revising CAS 540.

The revised CAS 540 is effective for audits of financial statements for periods beginning on or after December 15, 2019. Earlier application is permitted.

IMPACT OF COVID-19 ON OUR AUDIT

MNP's COVID protocols are based on recommendations by the Province of British Columbia. At the date of this Audit Service Plan we are adhering to the following:

Social Distancing;

No Non-Essential Attendance at External Business Development, Conferences or Training;

No Non-Essential Business Travel and;

International Travel - Self-Isolation for 14 days.

Wherever possible, we use our Client Portal website to facilitate transfer of documents and requests for information. This allows for ease of sharing documents without a file size restriction, while maintaining security and confidentiality over your documents and information. During the height of COVID, we performed our audits remotely, using email, phone, and the Client Portal to share information. Meetings were held virtually on a variety of platforms, including Teams and Zoom, and we were able to complete and deliver our usual high-quality audits.

In the current "reopening" scenario, we have started doing fieldwork visits again. Before our team members attend field work, we will be sending out a questionnaire to ascertain if it is safe for our team to be onsite as well as to learn your current COVID protocols. The safety of your team and ours is paramount at all times. All team members will be apprised of the Hospital District's protocols before we arrive onsite. If the Province increases restrictions related to COVID we are prepared to perform field work remotely.

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About MNP LLP

MNP is a leading national accounting, tax and business consulting firm in Canada. We proudly serve and respond to the needs of our clients in the public, private and not-for-profit sectors. Through partner-led engagements, we provide a collaborative, cost-effective approach to doing business and personalized strategies to help organizations succeed across the country and around the world.





November 9, 2020

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

Dear Ms. Foort:

This letter will confirm the arrangements discussed with you regarding the services we will render to Comox-Strathcona Regional Hospital District (the "Hospital District") commencing with the fiscal year ending December 31, 2020.

Our responsibilities

We will audit the financial statements of Comox-Strathcona Regional Hospital District for the year ending December 31, 2020.

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 internal controls 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.

Other matters

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.

The privacy and security of the personal information you provide is important to us. We strive to ensure the strictest compliance with all applicable provincial and federal standards of protection and disclosure of personal information by any and all of our employees, agents, divisions and/or affiliates (referred to collectively as "MNP"). You may review our privacy policy at www.mnp.ca. We will not collect, use, or disclose any of your personal information without your knowledge and consent, unless required to do so by legal authority or the applicable provincial Rules of Professional Conduct.

By signing this engagement letter you agree that for the purposes of this engagement MNP may collect, use, and disclose personal information in accordance with our privacy policy. You also agree that MNP may collect and use personal information from you for the purposes of providing other services or informing you of other opportunities from time to time ("Other Matters"). Personal information that is not relevant to the purposes of this engagement or to any Other Matters will not be disclosed to anyone for any reason without your further prior consent.

In accordance with professional regulations (and by Firm policy), 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. Confidentiality of client information will be maintained throughout this process.

The arrangements outlined in this letter and its appendices 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
Chartered Professional Accountants

RESPONSE:

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

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 controls 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 LLP ("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 of the financial statements.

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.

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

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 effective controls reduce 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;
- 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 controls 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 controls, 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, 2020, and the statements of operations and cash flows for the year 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, 2020, and the results of its operations and its cash flows for the year 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.

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.

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.

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

- 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.

The estimate of fees for the audit services to be provided are \$4,300, exclusive of disbursements and taxes..

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 internal controls which cause procedures to be extended;
- No major unadjusted misstatement(s) or un-reconciled balances;
- Significantly all adjusting entries are completed prior to 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 the 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 as indicated in the letter above. 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.
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.

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

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. **Out-sourcing** - MNP may out-source to third party service providers certain data-entry functions. To protect our clients, we have imposed detailed contractual obligations on these service providers regarding the safeguarding, confidentiality and security of your personal information. Nevertheless, our service provider may be required by the applicable laws of a foreign country to disclose personal information in its custody to that country's government or agencies pursuant to a lawful court order made in that country.
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:
 - a. 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.
 - b. 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.
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.

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

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 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.