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AUDIT

Middlesex-London Health Unit

Audit Findings Report
For the year ended December 31, 2014

KPMG LLP

Licensed Public Accountants

June 11, 2015

kpmg.ca

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The contacts at KPMG in connection with this report are:

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Table of Contents

At KPMG, we are **passionate** about earning your **trust**. We take deep **personal accountability**, individually and as a team, to deliver **exceptional service and value** in all our dealings with you.

At the end of the day, we measure our success from the **only perspective that matters – yours**.

Executive summary

Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Finance and Facilities Committee, in your review of the results of our audit of the financial statements of the Middlesex-London Health Unit as at and for the year ended December 31, 2014.

Audit risks and results

We identified a significant financial reporting risk relating to fraud risk over management override of controls. We are satisfied that our audit work has appropriately dealt with this risk.

No other significant financial reporting risks were identified during the audit; however, we have identified some other areas of audit focus to discuss with you.

See pages 5 – 7.

Audit adjustments and differences

We did not identify differences that remain uncorrected.

As well, we did not identify any adjustments that were communicated to management and subsequently corrected in the financial statements.

Executive summary (continued)

Finalizing the audit

As of May 26, 2015, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include amongst others:

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

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

Control and other observations

We identified a control deficiency related to the review of journal entries.

See page 10.

Critical accounting estimates

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

- Management identifies all accounting estimates and establishes processes for making accounting estimates.
- There are no indicators of management bias as a result of our audit over estimates.
- Disclosure of estimation uncertainty in the financial statements is included in Note 1(e), Use of estimates. This note provides information on areas in the financial statements that include estimates.
- Management evaluates these estimates on a regular basis to ensure they are appropriate.

Significant accounting policies and practices

There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

Independence

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

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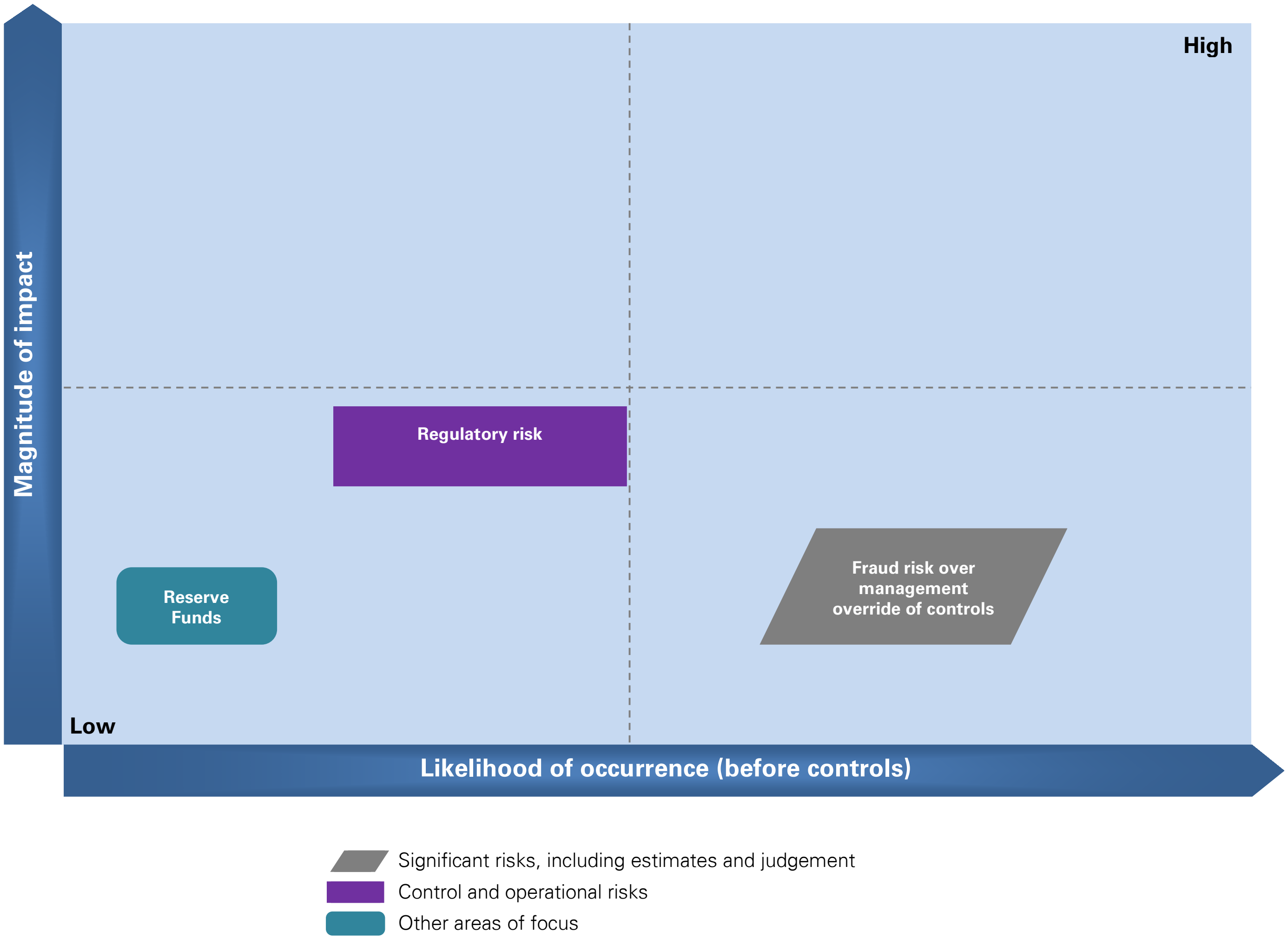
Audit risks and results

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



Audit risks and results

Inherent risk of material misstatement is the susceptibility of a balance or assertion to misstatement which could be material, individually or when aggregated with other misstatements, assuming that there are no related controls.

We highlight our significant findings in respect of significant financial reporting risks.

Significant financial reporting risks	Why	Our significant findings from the audit
Fraud risk over management override of controls	This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.	As the risk is not rebuttable, our audit methodology incorporates the required procedures in professional standards to address this risk. These procedures include testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions. No significant findings were identified as a result of the procedures performed during the audit.

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Audit risks and results

Other areas of focus for our audit, include the following:

Other areas of focus	Why	Our significant findings from the audit
Reserve Funds	In fiscal 2014, the Health Unit created two new reserve funds for which up to $450,000 of unused funding can be transferred per year from the City of London and the County of Middlesex.	As at December 31, 2014, $426,077 was held in these reserve accounts instead of showing as payable to the City of London and the County of Middlesex at year end. KPMG agreed the creation of these reserve accounts to the Board of Health Committee minutes and performed substantive procedures over revenue, expenses and payables to other levels of government. KPMG did not identify any issues during testing of this balance.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are, in all material respects, in accordance with the Company's relevant financial reporting framework. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter included in the Appendices.

We also highlight the following:

Form, arrangement, and content of the financial statements	The form, arrangement, and content of the financial statements are appropriate for the Company's purposes.

Audit adjustments and differences

Adjustments and differences identified during the audit have been categorized as Corrected "adjustments" or Uncorrected "differences." These include disclosure adjustments and differences.

Materiality

In the performance of the audit, KPMG utilized a materiality of $1,056,000 and an audit misstatement posting threshold of $52,800. This was based on total expenses as a benchmark.

Corrected audit adjustments

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

Uncorrected audit differences

We did not identify differences that remain uncorrected.

Control observations

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

Other control deficiencies may be identified during the audit that do not rise to the level of significant deficiency.

Significant deficiencies

No significant control deficiencies have been identified.

Other control deficiencies

Below is a summary of these other control deficiencies that we identified during the audit:

Process	Potential effect
Journal Entry Review	KPMG notes that there is not consistent review of non-standard journal entries or where there is review, it is not formally documented. This increases the risk of inappropriate journal entries being recorded. It is recommended that all non-standard journal entries be reviewed and signed as evidence that this review has taken place.

Appendices

Appendix 1: Required communications

In accordance with professional standards, there are a number of communications that are required during the course of and upon completion of our audit. These include:

- **Auditors' report** – the conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Finance & Facilities Committee.

Appendix 2: Independence

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

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

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

Description of professional services
Audit of the financial statements of Middlesex-London Health Unit for the year ended December 31, 2014

Professional standards require that we communicate the related safeguards that have been applied to eliminate identified threats to independence or to reduce them to an acceptable level. Although we have policies and procedures to ensure that we did not provide any prohibited services and to ensure that we have not audited our own work, we have applied the following safeguards related to the threats to independence listed above:

- We instituted policies and procedures to prohibit us from making management decisions or assuming responsibility for such decisions
- We obtained pre-approval of non-audit services, and during this pre-approval process we discussed the nature of the engagement and other independence issues related to the services
- We obtained management's acknowledgement of responsibility for the results of the work performed by us regarding non-audit services, and we have not made any management decisions or assumed responsibility for such decisions

Appendix 3: Management representation letter

KPMG LLP
1400-140 Fullarton Street
London, Ontario N6A 5P2
Canada

June 11, 2015

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the non-consolidated financial statements (hereinafter referred to as "financial statements") of Middlesex-London Health Unit ("the Entity") as at and for the period ended December 31, 2014.

We confirm that the representations we make in this letter are in accordance with the definitions as set out in **Attachment I** to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

GENERAL:

1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 1, 2010, for:

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

   b) providing you with all relevant information, such as all financial records and related data and complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of shareholders, board of directors and committees of the board of directors that may affect the financial statements, and access to such relevant information

   c) such internal control as management determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

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

INTERNAL CONTROL OVER FINANCIAL REPORTING:

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

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

3) We have disclosed to you:

   a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

   b) all information in relation to fraud or suspected fraud that we are aware of and that affects the Entity and involves: management, employees who have significant roles in internal control, or others, where the fraud could have a material effect on the financial statements

   c) all information in relation to allegations of fraud, or suspected fraud, affecting the Entity's financial statements, communicated by employees, former employees, regulators, or others

   d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements

   e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements

SUBSEQUENT EVENTS:

4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

RELATED PARTIES:

5) We have disclosed to you the identity of the Entity's related parties and all the related party relationships and transactions / balances of which we are aware and all related party relationships and transactions / balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

ESTIMATES:

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

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

7) We confirm that the Entity is not a Canadian reporting issuer (as defined under any applicable Canadian securities act) and is not a United States Securities and Exchange Commission ("SEC") Issuer (as defined by the Sarbanes-Oxley Act of 2002). We also confirm that the financial statements of the Entity will not be included in the consolidated financial statements of a Canadian reporting issuer audited by KPMG or an SEC Issuer audited by any member of the KPMG organization.

Yours very truly,

MIDDLESEX-LONDON HEALTH UNIT

By: John Millson, Director, Finance & Operations

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

Attachment I – Definitions

MATERIALITY

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

FRAUD & ERROR

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

RELATED PARTIES

In accordance with Canadian public sector accounting standards, *related party* is defined as:

- when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not-for-profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian public sector accounting standards, a *related party transaction* is defined as:

- a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

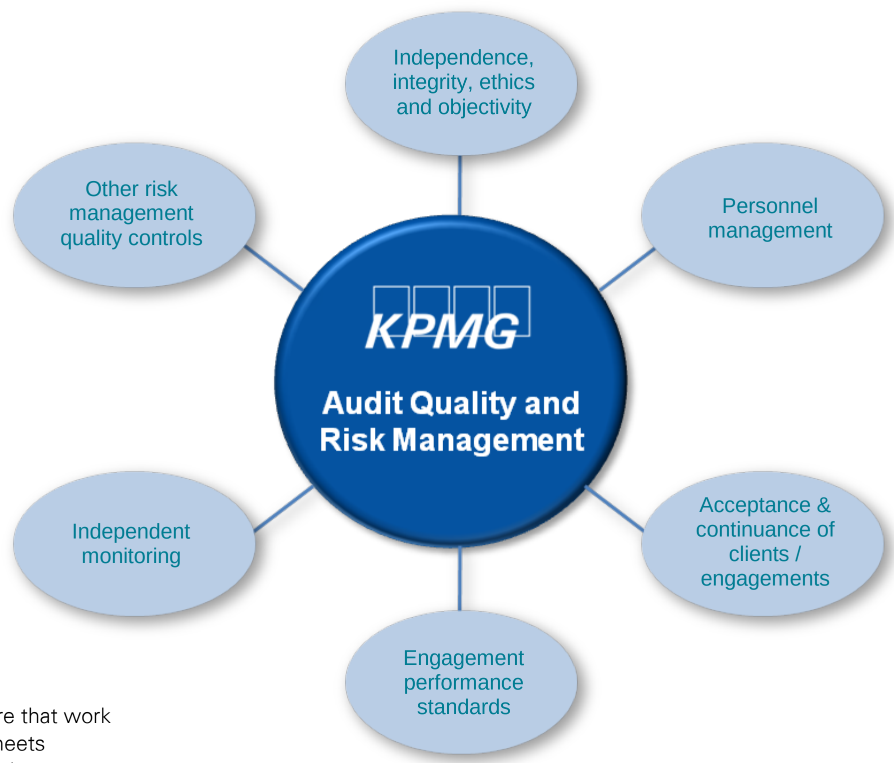
Appendix 4: Audit Quality and Risk Management

KPMG maintains a system of quality control designed to reflect our drive and determination to deliver independent, unbiased advice and opinions, and also meet the requirements of Canadian professional standards.

Quality control is fundamental to our business and is the responsibility of every partner and employee. The following diagram summarises the six key elements of our quality control systems.

Visit http://www.kpmg.com/Ca/en/services/Audit/Pages/Audit-Quality-Resources.aspx for more information.

- Other controls include:
  - Before the firm issues its audit report, Engagement Quality Control Reviewer reviews the appropriateness of key elements of publicly listed client audits.
  - Technical department and specialist resources provide real-time support to audit teams in the field.
- We conduct regular reviews of engagements and partners. Review teams are independent and the work of every audit partner is reviewed at least once every three years.
- We have policies and guidance to ensure that work performed by engagement personnel meets applicable professional standards, regulatory requirements and the firm's standards of quality.



- All KPMG partners and staff are required to act with integrity and objectivity and comply with applicable laws, regulations and professional standards at all times.
- We do not offer services that would impair our independence.
- The processes we employ to help retain and develop people include:
  - Assignment based on skills and experience;
  - Rotation of partners;
  - Performance evaluation;
  - Development and training; and
  - Appropriate supervision and coaching.
- We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.
- Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.

Appendix 5: Background and professional standards

Internal control over financial reporting

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

The control deficiencies communicated to you are limited to those control deficiencies that we identified during the audit.

Documents containing or referring to the audited financial statements

We are required by our professional standards to read only documents containing or referring to audited financial statements and our related auditors' report that are available through to the date of our auditors' report. The objective of reading these documents through to the date of our auditors' report is to identify material inconsistencies, if any, between the audited financial statements and the other information. We also have certain responsibilities, if on reading the other information for the purpose of identifying material inconsistencies, we become aware of an apparent material misstatement of fact.

We are also required by our professional standards when the financial statements are translated into another language to consider whether each version, available through to the date of our auditors' report, contains the same information and carries the same meaning.

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Appendix 6: Current developments

The following is a summary of the current developments that are presented for your information.

Topic	Summary and implications
US Foreign Account Tax Compliance (FATCA) and Not-for-Profit Entities	Not-for-Profit entities must determine their status under FATCA to assess any possible reporting and/or withholding obligations. US Foreign Account Tax Compliance (FATCA) and Not-for-Profit Entities
Cyber security	The threats from cyber adversaries are continuing to grow in scale and sophistication. NPOs worldwide now openly acknowledge that cyber attacks are one of the most prevalent and high impact risks they face. Cyber security for Canada's Not-for-Profit Organizations – Attack is certain – Your loss is not
Employer compliance audits	Recently, Canada Revenue Agency ("CRA") has demonstrated a renewed focus on "Employer Compliance Audits", which include a review of various employer-provided benefits, as well as the nature of the relationship that exists between an employer and its employees and other third party consultants. Employer compliance audits – Are your benefits taxable?
Assets safeguarding	Fraud can derail the good work an NPO performs. Both the financial loss and the reputational damage that result from an incident of fraud can have lasting consequences and tarnish the goodwill created by the NPO's past efforts. Safeguarding Not-for-Profit Organizations from fraud
Income tax issues associated with operating a business	The funding landscape for organizations in the public sector has changed dramatically over the last number of years. Government or public funding agencies no longer have the ability to fully support public purpose organizations that were established legally as either Charities or NPO's for tax purposes. The income tax issues associated with operating a business within a Charity or Not-for-Profit organization

Making the most of your charitable gifts for 2015	How you structure your charitable donations can be as important as the amounts you give, both to the charity and to the donation’s after-tax cost to you. Making the most of your charitable gifts for 2015
Why is Risk Management important for NPOs?	Strong governance, supported by effective enterprise risk management, are foundational to a Not-for-Profit organization’s ability to anticipate and effectively respond to complex challenges. The importance of Enterprise Risk Management to a Not-for-Profit organization