



Capital Regional Hospital District

**Audit Findings Report for the year ended
December 31, 2018**

KPMG LLP

For the meeting on May 1, 2019

kpmg.ca/audit



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Purpose of this report

The purpose of this Audit Findings Report is to assist you, as a member of the Board of Directors, in your review of the results of our audit of the financial statements of Capital Regional Hospital District (the District) as at and for the year ended December 31, 2018.

This Audit Findings Report builds on the Audit Plan we presented to the Board of Directors on January 9, 2019.



Changes from the Audit Plan

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



Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- Completing our discussions with the Board of Directors;
- Obtaining the signed management representation letter;
- Obtaining evidence of the Board's approval of the financial statements

We will update the Board 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.

Summary of audit findings



Areas of audit focus

At the planning stage of the audit we discussed with you areas of audit focus. We are satisfied that our work has appropriately dealt with the focus areas identified.



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.

We identified one difference from the 2017 fiscal year that remains uncorrected relating to debt issuance costs recognized in 2017 as an expense rather than over the 25 year term of the debt. The difference will decline in value over the term of the debt.

Based on both qualitative and quantitative considerations, management have decided not to correct the difference, and represented to us that the uncorrected difference is, in their judgment, not material to the financial statements. We concur with management’s representation and accordingly, the difference has no effect on our auditors’ report.

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

See Appendix 2.

Summary of audit findings



Significant accounting policies and practices

We have reviewed the financial reporting impact of the new accounting standards effective for the District's 2018 fiscal year end with no issues noted. There have been no other initial selections of, or changes to, significant accounting policies and practices to bring to your attention.

The presentation and disclosure of the financial statements are, in all material respects, in accordance with Canadian public sector accounting standards. Misstatements, including omissions, if any, related to disclosure or presentation items are in the management representation letter.



Control and other observations

We did not identify any control deficiencies that we determined to be significant deficiencies in internal controls over financial reporting.



Independence

We confirm that we are independent with respect to the District within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulation from January 1, 2018 up to the date of this report.



Current developments

There have been no significant updates to the current developments included in our Audit Plan previously provided to the Board of Directors.



Areas of audit focus and results

We highlight our significant findings in respect of areas of audit focus as identified in our Audit Plan, as well as any additional areas of audit focus identified.

Area of audit focus	Why is it significant?
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Summit at Quadra Village

Material capital additions during the year

Our response and significant findings

- During 2015, the District entered into a project development agreement for Summit at Quadra Village (955 Hillside Ave) with Island Health. The development is a 320-unit residential care facility intended to replace Oak Bay Lodge and Mount Tolmie Hospital. The estimated costs for the development project are \$86.4M. The land and future building is to be owned by the District, while the funding for the residential care services will be provided for by Island Health. Anticipated completion of the project is slated for 2019.
- Through a financing agreement, Island Health will lease the building for a 25 year term. KPMG reviewed management's assessment of the draft project development agreement with Island Health, analysing the accounting treatment of the project. KPMG concurs with management's assessment that the project, as set out in the draft agreement, is to be recorded as an asset of the District.
- Total project costs to December 31, 2018 are \$52.2M, including land. Asset additions related to the project in the 2018 fiscal year were \$26.7M.
- KPMG selected a sample of capital asset additions and agreed them to source documentation with no discrepancies noted.
- We inspected the timing of invoicing and accruals at December 31, 2018 for work completed at year end but not yet billed.
- We did not note any issues or discrepancies in the amounts recognized for construction costs related to the Summit project.
- KPMG reviewed the project status for evaluation of contingencies and completeness of liabilities and concur with management's estimates and accruals reported at December 31, 2018.



Audit risks

Professional requirements

Fraud risk from revenue recognition. There are generally pressures or incentives on management to commit fraudulent financial reporting through inappropriate revenue recognition when there is an expectation to maintain a balanced budget from year to year.

Fraud risk from management override of controls.

Why is it significant?

As previously noted in our Audit Plan, the risk of fraud from revenue recognition has been rebutted as there were no significant pressures or incentives identified related to revenue recognition.

This is a presumed fraud risk. We have not identified any specific additional risks of management override relating to this audit.

Our response and significant findings

Our audit methodology incorporates the required procedures in professional standards to address the risk of fraud. These procedures include:

- Testing of journal entries and other adjustments;
- Performing a retrospective review of significant estimates; and
- Evaluating the business rationale of significant unusual transactions.

There were no significant issues noted in our testing.



Significant accounting policies and practices

The following items relate to the qualitative aspects of accounting practices of the District:



Significant accounting policies

- There were no changes to the critical accounting policies and practices.
- There were no changes in significant accounting policies.
- The District has appropriately implemented the new accounting standards for Related Party Disclosures, Inter-Entity Transactions, Assets, Contingent Assets and Contractual Rights.
- There were no significant accounting policies in controversial or emerging areas.
- There were no issues noted with the timing of the District's transactions in relation to the period in which they are recorded.
- There were no issues noted with the extent to which the financial statements are affected by a significant unusual transaction and extent of disclosure of such transactions.
- There were no issues noted with the extent to which the financial statements are affected by non-recurring amounts recognized during the period and extent of disclosure of such transitions.



Significant accounting estimates

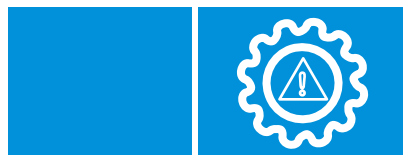
- There were no issues noted with management's identification of accounting estimates.
- There were no issues noted with management's process for making accounting estimates.
- There were no indicators of possible management bias.
- There were no significant factors affecting the District's asset and liability carrying values.



Significant disclosures

- There were no issues noted with the judgments made, in formulating particularly sensitive financial statement disclosures.
- There were no issues noted with the overall neutrality, consistency, and clarity of the disclosures in the financial statements.
- There were no significant potential effects on the financial statements of significant risks, exposures and uncertainties.

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 in the preceding paragraph and was not designed to identify all control deficiencies that might be 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.

In accordance with professional standards, we are required to communicate to the Board of Directors any control deficiencies that we identified during the audit and have determined to be material weaknesses or significant deficiencies in internal control over financial reporting. No significant deficiencies have been identified.

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.

Appendices



Appendix 1: Required communications



Appendix 2: Management representation letter

Appendix 1: Required communications



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

These include:



Auditors' Report

The conclusion of our audit is set out in our draft auditors' report attached to the draft financial statements.



Management representation letter

In accordance with professional standards, a copy of the management representation letter is provided to the Board of Directors in Appendix 2.



Independence

In accordance with professional standards, we have confirmed our independence.

Appendix 2: Management representation letter

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of Capital Regional Hospital District (“the Entity”) as at and for the period ended December 31, 2018.

GENERAL:

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

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

RESPONSIBILITIES:

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated May 19, 2017 including for:
 - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
 - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including:
 - (i) the names of all related parties and information regarding all relationships and transactions with related parties; and
 - (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of the board of directors and committees of the board of directors that may affect the financial statements. All significant actions are included in such summaries.
 - c) providing you with unrestricted access to such relevant information.
 - d) providing you with complete responses to all enquiries made by you during the engagement.
 - e) providing you with additional information that you may request from us for the purpose of the engagement.
 - f) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
 - g) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - h) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
 - i) ensuring that internal auditors providing direct assistance to you, if any, were instructed to follow your instructions and that management, and others within the entity, did not intervene in the work the internal auditors performed for you.

INTERNAL CONTROL OVER FINANCIAL REPORTING:

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

FRAUD & NON-COMPLIANCE WITH LAWS AND REGULATIONS:

- 3) We have disclosed to you:
 - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
 - b) all information in relation to fraud or suspected fraud that we are aware of that involves:
 - management;
 - employees who have significant roles in internal control over financial reporting; or
 - otherswhere such fraud or suspected fraud could have a material effect on the financial statements.
 - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
 - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
 - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

SUBSEQUENT EVENTS:

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

RELATED PARTIES:

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

ESTIMATES:

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

GOING CONCERN:

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

- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

MISSTATEMENTS:

- 11) The effects of the uncorrected misstatements described in Attachment II are immaterial, both individually and in the aggregate, to the financial statements as a whole.

NON-SEC REGISTRANTS OR NON-REPORTING ISSUERS:

- 12) 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,

Mr. Robert Lapham, Chief Administrative Officer

Mr. Nelson Chan, Chief Financial Officer

cc: Board of Directors

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.

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.

ATTACHMENT II – SUMMARY OF AUDIT MISSTATEMENTS SCHEDULE

Statement of operations effect		Statement of financial position effect		
Description	(Decrease) Increase	Assets (Decrease) Increase	Liabilities (Decrease) Increase	Accumulated Deficit (Decrease) Increase
To record debt issuance expense over the term of the debt	(4,900)	-	112,700	(107,800)
Total misstatements	(4,900)	-	112,700	(107,800)



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