

Notice of Meeting and Meeting Agenda Capital Regional Hospital District Board

Wednesday, January 9, 2019

1:00 PM

6th Floor Boardroom
625 Fisgard Street
Victoria, BC

1. APPROVAL OF THE AGENDA

2. ADOPTION OF MINUTES

2.1. [19-048](#) Minutes for Adoption

Recommendation: That the minutes from the December 12, 2018 Capital Regional Hospital District Board meeting be adopted as presented.
(NWA)

Attachments: [Minutes: December 12, 2018 CRHD Board](#)

3. REPORT OF THE CHAIR

4. PRESENTATIONS/DELEGATIONS

4.1 Presentations

4.11. [19-026](#) Capital Regional Hospital District 2018 Audit Planning Report (Verbal Presentation), Lenora Lee, Lead Audit Engagement Partner, KPMG

4.2 Delegations

5. CONSENT AGENDA

6. ADMINISTRATION REPORTS

6.1. [19-005](#) Capital Regional Hospital District 2018 Audit Planning Discussion

Recommendation: That the 2018 Capital Regional Hospital District Audit Plan developed by KPMG be approved.
(NWA)

Attachments: [Staff Report: CRHD 2018 Audit Planning Discussion](#)
[Attachment: KPMG CRHD 2018 Audit Planning Report](#)

7. REPORTS OF COMMITTEES

8. BYLAWS

9. NEW BUSINESS

10. MOTION TO CLOSE THE MEETING

11. RISE AND REPORT

12. ADJOURNMENT

Voting Key:

NWA - Non-weighted vote of all Directors

NWP - Non-weighted vote of participants (as listed)

WA - Weighted vote of all Directors

WP - Weighted vote of participants (as listed)

To ensure quorum, please advise Pat Perna (pperna@crd.bc.ca) if you or your alternate cannot attend.

Meeting Minutes

Capital Regional Hospital District Board

Wednesday, December 12, 2018

1:05 PM

**6th Floor Boardroom
625 Fisgard Street
Victoria, BC**

PRESENT: D. Blackwell (Chair), C. Plant (Vice-Chair), S. Brice, B. Desjardins, F. Haynes, L. Helps, M. Hicks, G. Holman, B. Maberley (for D. Howe), B. Isitt, J. Loveday, C. McNeil-Smith, R. Martin, R. Mersereau, K. Murdoch, G. Orr, J. Ranns, D. Screech, L. Seaton, M. Tait, N. Taylor, K. Williams, R. Windsor, G. Young

STAFF: K. Lorette, Acting Chief Administrative Officer; N. Chan, Chief Financial Officer; L. Hutcheson, General Manager, Environmental Sustainability; T. Robbins, General Manager, Integrated Water Services; K. Morley, General Manager, Corporate Services; A. Orr, Senior Manager, Corporate Communications; C. Culham, Senior Manager, Regional Housing; E. Gorman, Deputy Corporate Officer; P. Perna, Committee Clerk; J. Cuthbert, Committee Clerk (Recorder)

The meeting was called to order at 2:50 pm.

1. APPROVAL OF THE AGENDA

**MOVED by Director Tait, SECONDED by Director Helps,
That the agenda be approved as circulated.
CARRIED**

2. ADOPTION OF MINUTES

2.1. [18-618](#) Minutes for Adoption

**MOVED by Director Taylor, SECONDED by Director Tait,
That the minutes from the November 14, 2018 Capital Regional District Hospital
Board meeting be adopted as circulated.
CARRIED**

3. REPORT OF THE CHAIR

There was none.

4. PRESENTATIONS/DELEGATIONS

4.1 Presentations

There were none.

4.2 Delegations

There were none.

5. CONSENT AGENDA

6. ADMINISTRATION REPORTS

- 6.1. [18-603](#) Revenue Anticipation Resolution for Current Capital Regional Hospital District Operating Expenditures

MOVED by Director Brice, **SECONDED** by Director Plant,
That the resolution be adopted to allow the temporary borrowing of up to \$10 million for operating expenditures.
CARRIED

7. REPORTS OF COMMITTEES

There were none.

8. BYLAWS

There were none.

9. NEW BUSINESS

There was none.

10. MOTION TO CLOSE THE MEETING

There was none.

11. ADJOURNMENT

MOVED by Director Tait, **SECONDED** by Director Seaton,
That the December 12, 2018 Capital Regional Hospital District Board meeting be adjourned at 2:53 pm.
CARRIED

CHAIR

CERTIFIED CORRECT:

CORPORATE OFFICER



Making a difference...together

**REPORT TO CAPITAL REGIONAL HOSPITAL DISTRICT BOARD
MEETING OF WEDNESDAY, JANUARY 09, 2019**

SUBJECT **Capital Regional Hospital District 2018 Audit Planning Discussion**

ISSUE

This report provides information to the Board on the 2018 Audit Plan and related work to be completed by KPMG for the 2018 year-end audit of the Capital Regional Hospital District (CRHD).

BACKGROUND

Under *Section 377 of the Local Government Act*, the CRHD is required to appoint an auditor licensed under the *Business Corporations Act*. The CRHD currently uses KPMG for its annual audit process.

The auditors prepared an Audit Planning Report for presentation to the Board (Attachment 1) as a fundamental component of the CRHD's annual financial statement audit. This is a standard audit procedure and is similarly undertaken by other local governments in the region.

The presentation will provide the Board with an overview of the audit strategy and approach that KPMG will use in addressing any significant risks. The audit plan is designed to identify and address key financial reporting risks, including fraud, by evaluating the existence, quality and effectiveness of management internal controls over financial reporting. KPMG notes, in Attachment 1, that they have not identified any areas of significant financial reporting risks. However, there is a presumed fraud risk around management override of controls. KPMG addresses this risk by performing testing of journal entries and other adjustments, performing a retrospective review of estimates and evaluating the business rationale of significant unusual transactions. Additionally, at the Board meeting, KPMG will obtain the Board's views on the risk of fraud for the CRHD.

The presentation will also include an overview of the audit cycle, timetable and specific areas that the audit will focus on: cash and investments, tangible capital assets in particular those for Summit at Quadra Village Project, accounts payable, debt, revenue and expenses. KPMG will provide the basis of audit materiality deemed necessary to evaluate any misstatements they identify during the audit.

ALTERNATIVES

Alternative 1

That the 2018 Capital Regional Hospital District Audit Plan developed by KPMG be approved.

Alternative 2

That this report be referred back to staff for additional information.

IMPLICATIONS

KPMG is onsite commencing Monday, March 4, 2019, for five days to conduct audit field work. While onsite the auditors perform sample testing on many areas including invoices, journal entries, accounts receivables, and accounts payable in order to gain reasonable assurance that

all aspects of financial transactions are being recorded and reported in compliance with Canadian Public Sector Accounting Standards (PSAS). The audit team will also conduct interviews with staff in order to review internal controls and processes. In addition, the auditors will ensure that financial entries are accurate, complete

Subsequent to completion of the audit field work, financial statements will be finalized by CRHD staff. As part of the audit process the auditors will provide the Board with a detailed Audit Findings Report. The finalized financial statements will be presented to the Board.

CONCLUSION

KPMG’s primary objective of the Financial Statement audit is to present an opinion on the extent to which the CRHD’s financial statements are fairly presented, in accordance with the PSAS principles. As part of the annual audit, KPMG provides an audit plan to the Board. The auditors will conduct their audit of the 2018 financial statements pursuant to this plan.

RECOMMENDATION(S)

That the 2018 Capital Regional Hospital District Audit Plan developed by KPMG be approved.

Submitted by:	Rianna Lachance, BCom, CPA, CA, Senior Manager, Financial Services
Concurrence:	Nelson Chan, MBA, CPA, CMA, Chief Financial Officer
Concurrence:	Robert Lapham, MCIP, RPP, Chief Administrative Officer

SE:ngm

Attachment 1: CRHD 2018 Audit Planning Report



Capital Regional Hospital District

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

KPMG LLP

December 3, 2018

kpmg.ca/audit

DRAFT FOR DISCUSSION



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The contacts at KPMG in connection with this report are:



Lenora Lee
Audit Engagement
Partner
Tel: (250) 480-3588
lenoramlee@kpmg.ca

Sarah Burden
Audit Senior Manager
Tel: (250) 480-3562
sburden1@kpmg.ca

Hanna Hatherley
Audit Manager
Tel: (250) 480-3680
hhatherley@kpmg.ca

Executive summary



Audit risks

Our audit is risk-focused. In planning our audit we have taken into account key areas of focus for financial reporting. See page 4



Audit materiality

Materiality has been determined based on prior year audited revenues normalized for the sale of Carey Road. We have determined materiality to be \$700,000. See page 5



Independence & quality control

We are independent and have extensive quality control and conflict checking processes in place. We provide complete transparency on all services and follow Board approved protocols.



Current developments

The following new accounting standards have been approved by the Public Sector Accounting Board ("PSAB") and are effective for the District's 2018 fiscal year:

- Related party disclosures
- Inter-entity transactions
- Assets
- Contingent assets
- Contractual rights

Management has commenced work to adopt the new accounting standards. See pages 12-14 for upcoming changes.



Audit risks



Professional Requirements

Why is it significant?

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.

This is a presumed fraud risk.

Fraud risk from 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.



Our audit approach

The risk of fraud from revenue recognition has been rebutted as there were no significant pressures or incentives identified related to revenue recognition.

As the risk of management override of controls 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.



Materiality

Materiality Benchmark

Materiality has been determined based on prior year audited revenues normalized for the sale of Carey Road

\$36.7 million

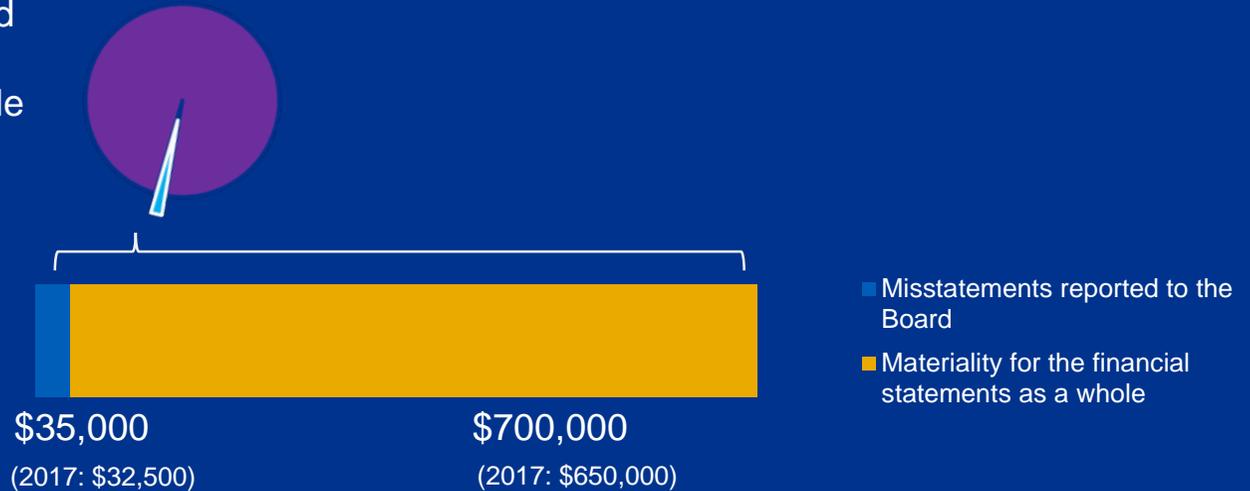
(2017 benchmark: \$34.3 million)

Materiality

\$700,000

1.9% of revenues

(2017 materiality: \$650,000, 1.9% of revenues)



Materiality represents the level at which we think misstatements will reasonably influence users of the financial statements. It considers both quantitative and qualitative factors.

To respond to aggregation risk, we design our procedures to detect misstatements at a lower level of materiality.

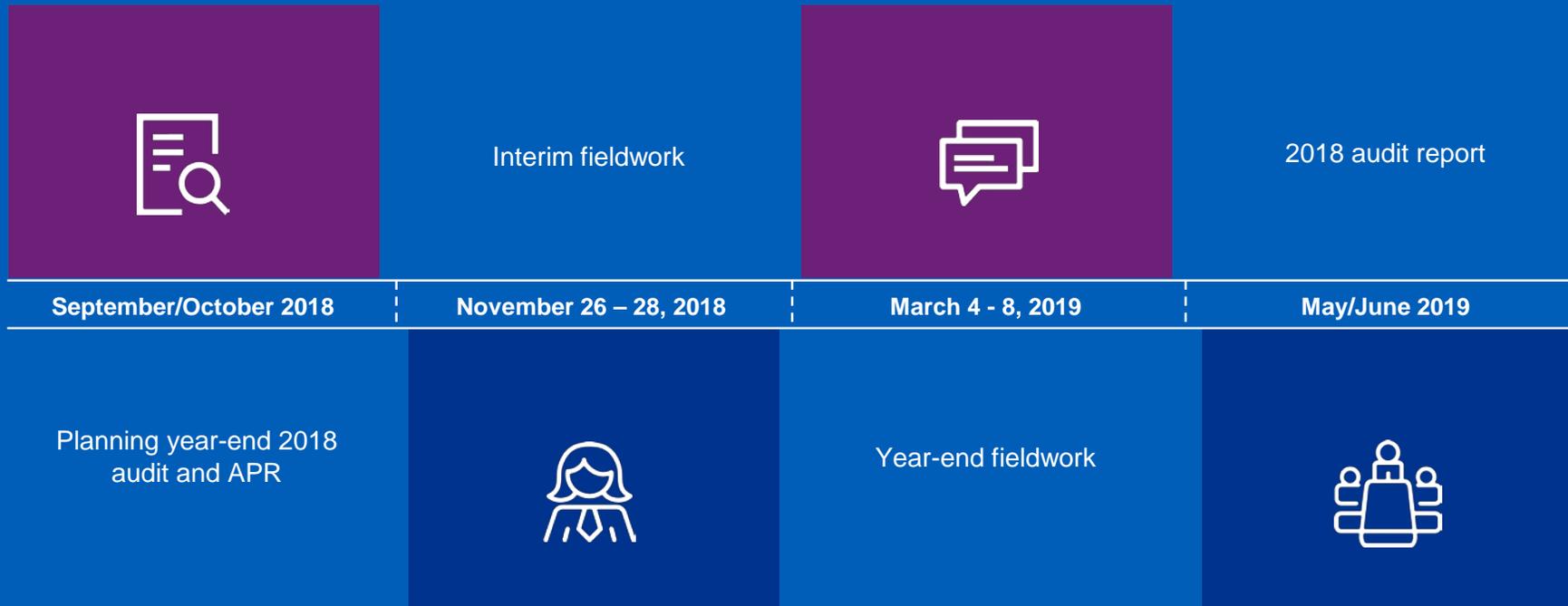
Therefore, an identified misstatement of \$35,000 would be included for your information in our Audit Findings Report, and individual or aggregate misstatements of \$700,000 would have an effect on our audit opinion in our Audit Report.

We will report:

-  Corrected audit misstatements
-  Uncorrected audit misstatements



Key deliverables and milestones





Annual inquiries



Professional auditing standards require that we annually inquire concerning the Board's oversight of management's process for identifying and responding to the risks of fraud with the Capital Regional Hospital District. Accordingly, we ask whether you:

- Are aware of, or have identified any instances of, actual, suspected, possible or alleged non-compliance of laws and regulations or fraud, including misconduct or unethical behavior related to financial reporting or misappropriation of assets? If so, have these instances been appropriately addressed to your satisfaction?
- Are aware of any significant fraud risks facing the District?
- Believe that the Board exercises effective oversight of management's process for identifying and responding to the risk of fraud in the District and these internal controls that management has established to mitigate these fraud risks?
- Are aware of the District entering into any significant unusual transactions?



The 2018 Auditors' Report



What's new in your 2018 auditors' report?

In response to investors demanding more than a binary pass/fail opinion from the auditors' report, the new and revised auditor reporting standards have introduced significant changes to the traditional auditors' report we provide.

In April 2017, the Auditing and Assurance Standards Board (AASB) in Canada approved the new and revised auditor reporting standards as Canadian Auditing Standards (CASs).



Impact to the 2018 auditors' report

Highlights of changes to your 2018 auditors' report include:

- Re-ordering of the auditors' report including moving opinion to the first section
- Separate section on "Other Information" (e.g. MD&A)
- Expanded descriptions of management's responsibilities, including those related to assessing the Entity's ability to continue as a going concern
- New description of responsibilities of those charged with governance
- Expanded descriptions of management's, those charged with governance and auditors' responsibilities

An example of the expected form of audit report for the December 31, 2018 fiscal year is included in Appendix 5.



Key Audit Matters Reporting

Key audit matters (KAMs) are those matters that, in the auditors' professional judgment, were of most significance in the audit. Currently, the reporting of KAMs in the auditors' report is only applicable when required by law or regulation or when the auditor is engaged to do so. Accordingly, your 2019 auditors' report will not include the communication of any KAMs as we have not yet been engaged to communicate them and there is no law or regulation that requires such communication. Accordingly, your 2018 auditors' report will not include the communication of any CAMs given the effective dates referred to above.

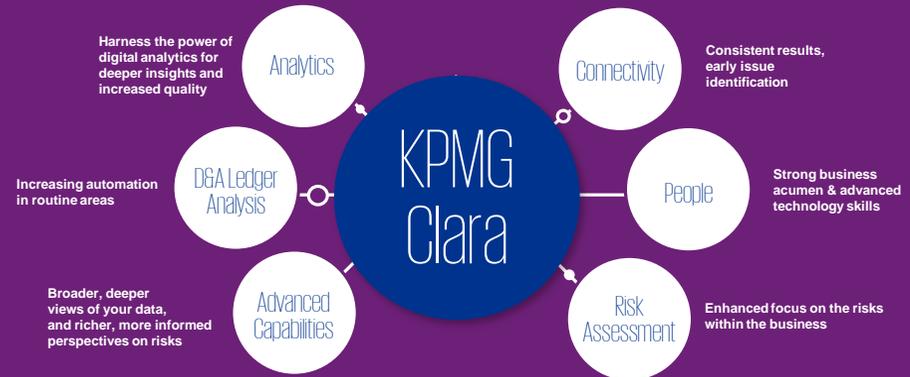
The Public Company Accounting Oversight Board (PCAOB) adopted their enhanced auditor reporting standards which includes, among other requirements, discussion of critical audit matters (CAMs) (similar to KAMs) within the auditors' report. As a result of the U.S. developments, the Accounting and Assurance Standards Board in Canada is deliberating how and when the disclosure of KAMs will be required for listed entities in Canada. It is expected KAM reporting for certain listed entities in Canada will be required starting in 2020.



The audit of today, tomorrow & the future

As part of KPMG’s technology leadership, our audit practice has developed technologies and alliances to continuously enhance our capabilities and deliver an exceptional audit experience.

Technology empowers us with deep analysis over your financial information, focusing our effort and interactions on the areas of greatest risk and minimizing disruption to your business.



Technology we use today

Tool	Benefit to audit
KPMG Clara Collaboration	KCCC is our secure audit platform and a one-stop shop through which we plan, execute and manage the audit, providing you with real-time access to the process at every step, including exchange of information and access to the real-time reporting you need in one central location.
KPMG Clara Advanced Capabilities	KPMG Clara Advanced Capabilities leverage our data and analytics capabilities, enabling us to analyze 100% of your general ledger data in the planning and account analysis stage and adjust our planned audit approach accordingly to target the areas of greatest risk. It allows us to use automation in performing our audit procedures over accounts such as revenue and receivables, salaries, purchases and payables and journal entries.
Visualization Tool	Our Visualization tool is a powerful and flexible end-to-end analytics platform which we leverage to display dynamic visualization of your data. This enables us to provide valuable insights to your business throughout our audit process.
Account Analysis Tool	Our account analysis tool provides meaningful general ledger data insights during the planning phase of the audit that can be used to assist the engagement team in obtaining a more thorough understanding of the business processes and underlying flow of transactions through utilization of Account Analysis, Visual Ledger and Journal Entry Analysis functional features. Our tool enables a more precise risk assessment and development of a tailored audit approach.
Journal Entry Analysis	Our journal entry tool assists in the performance of detailed journal entry testing based on engagement-specific risk identification and circumstances. Our tool provides auto-generated journal entry population statistics and focusses our audit effort on journal entries that are riskier in nature.
Data & Analytics Routines	We use data & analytics routines to assess relationships between expected variables, eg. revenue and expenses, receivables and revenue, payables and expenses.
Data Extraction & Analytics Tools	Our data extraction tools assist with risk assessment procedures and perform automated audit procedures in key cycles using data extracted directly from your ERP system.





The audit of today, tomorrow & the future

We continue to make significant investments in enhanced methodologies, new technologies and strategic alliances with leading technology companies that can have a transformative impact on auditing, and more broadly, financial reporting. KPMG is investing in the development of innovative audit technologies through both internal solutions and through alliances with technology firms such as Finger Food, Microsoft, IBM Watson and others. We are committed to investing in cognitive technology to develop external auditing tools and technologies. Cognitive technology will enable us to teach a machine how to perceive, reason, and learn like a human being. This will be transformative to our profession, and will directly benefit Capital Region Housing Corporation now and in the future.

We are developing intelligent automation to enable programmed reviews of unstructured data in source documents; freeing our professionals to focus their efforts on areas of greater risk. This may sound simple, but it's actually quite powerful, with complex underlying technologies.

Technology under development

Tools	Benefit to audit
Advanced Analytics Bad Debt Tool	The bad debt tool assists with our evaluation of management's estimate of the bad debt provision. This is accomplished through multiple features, including robust risk assessment and scenario analysis using different provisioning levels; comparing movements in total provision to macroeconomic data such as changes in CPI, GDP, private consumption growth, and employment rate; and providing insights on the accuracy of the bad debt provision rate by tracking amounts as it transitions between last aging buckets.
Business process mining (BPM)	BPM harnesses sub-ledger analytics and provides us with a deeper understanding of your processes. Our BPM tool is currently being piloted globally and will be coming soon to Canada. The tool provides immediate visualization of how 100% of your transactions are being processed to complement your process narratives and flow charts. A deeper understanding of your processes enhances our understanding of your business. This will ensure our team is focused on auditing the right risks and leveraging your team's resources efficiently. It also helps us identify inefficiencies or manual workarounds in a process and highlights where the process is under stress.



Current developments

Please visit KPMG's [Audit Committee Institute \(ACI\) / Current Developments](#) page for current developments in Canadian auditing, other professional standards, auditing and regulatory matters. Our discussions with you, our audit opinion and what KPMG is seeing in the marketplace—both from an audit and industry perspective—indicate the following is specific information that will be of particular interest to you. We would, of course, be happy to further discuss this information with you at your convenience.

Thought Leadership

Thought Leadership	Overview	Links
Accelerate	Accelerate is a KPMG trends report and video series that includes the perspective of subject matter leaders from across KPMG in Canada on seven key issues impacting organizations today that are disrupting the audit committee mandate.	Link to report
Canadian CEO Outlook Survey	Canadian CEOs are confident and the vast majority expect to achieve growth over the coming year, but what is driving that optimism? And what are Canadian CEOs doing to deliver on their expectations?	Link to report
Audit Quality 2017	Learn about KPMG's ongoing commitment to continuous audit quality improvement. We are investing in new innovative technologies and building strategic alliances with leading technology companies that will have a transformative impact on the auditing process and profession. How do we seek to make an impact on society through the work that we do?	Link to report



Current developments

Public Sector Accounting Standards

Standard	Summary and implications
Asset Retirement Obligations	<ul style="list-style-type: none"> – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2021. – The new standard addresses the recognition, measurement, presentation and disclosure of legal obligations associated with retirement of tangible capital assets in productive use. Retirement costs would be recognized as an integral cost of owning and operating tangible capital assets. PSAB currently contains no specific guidance in this area. – The ARO standard would require the public sector entity to record a liability related to future costs of any legal obligations to be incurred upon retirement of any controlled tangible capital assets (“TCA”). The amount of the initial liability would be added to the historical cost of the asset and amortized over its useful life. – As a result of the new standard, the public sector entity would have to: <ul style="list-style-type: none"> • consider how the additional liability will impact net debt, as a new liability will be recognized with no corresponding increase in a financial asset; • carefully review legal agreements, senior government directives and legislation in relation to all controlled TCA to determine if any legal obligations exist with respect to asset retirements; • begin considering the potential effects on the organization as soon as possible to coordinate with resources outside the finance department to identify AROs and obtain information to estimate the value of potential AROs to avoid unexpected issues.
Revenue	<ul style="list-style-type: none"> – A new standard has been approved that is effective for fiscal years beginning on or after April 1, 2022. – The new standard establishes a single framework to categorize revenues to enhance the consistency of revenue recognition and its measurement. – The standard notes that in the case of revenues arising from an exchange, a public sector entity must ensure the recognition of revenue aligns with the satisfaction of related performance obligations. – The standard notes that unilateral revenues arise when no performance obligations are present, and recognition occurs when there is authority to record the revenue and an event has happened that gives the public sector entity the right to the revenue.



Current developments (continued)

Public Sector Accounting Standards (continued)

Standard	Summary and implications
Employee Future Benefit Obligations	<ul style="list-style-type: none"> – The Public Sector Accounting Board (“PSAB”) has initiated a review of sections PS3250 <i>Retirement Benefits</i> and PS3255 <i>Post-Employment Benefits, Compensated Absences and Termination Benefits</i>. Given the complexity of issues involved and potential implications of any changes that may arise from this review, the project will be undertaken in phases. Phase I will address specific issues related to measurement of employment benefits. Phase II will address accounting for plans with risk sharing features, multi-employer defined benefit plans and sick leave benefits. – Two Invitations to Comment were issued and have closed. The first Invitation to Comment sought guidance on whether the deferral provisions in existing public sector standards remain appropriate and justified and the appropriateness of accounting for various components of changes in the value of the accrued benefit obligation and plan assets. The second Invitation to Comment sought guidance on the present value measurement of accrued benefit obligations. – A third Invitation to Comment seeks guidance on non-traditional pension plans. The deadline for responses to the third Invitation to Comment is February 1, 2019. – The ultimate objective of this project is to issue a new employment benefits section to replace existing guidance.
Public Private Partnerships (“P3”)	<ul style="list-style-type: none"> – A taskforce was established in 2016 as a result of increasing use of public private partnerships for the delivery of services and provision of assets. – A Statement of Principles (“SOP”) was issued in August 2017 which proposes new requirements for recognizing, measuring and classifying infrastructure procured through a public private partnership. An Exposure Draft of the new standard is expected to be issued in December 2018. – The SOP proposes that recognition of infrastructure by the public sector entity would occur when it controls the purpose and use of the infrastructure, when it controls access and the price, if any, charged for use, and it controls any significant interest accumulated in the infrastructure when the P3 ends. – The SOP proposes the public sector entity recognize a liability when it needs to pay cash or non-cash consideration to the private sector partner for the infrastructure.



Current developments (continued)

Public Sector Accounting Standards (continued)

Standard	Summary and implications
International Strategy	<ul style="list-style-type: none"> – PSAB is in the process of reviewing its current approach towards International Public Sector Accounting Standards. This project may result in changes to the role PSAB plays in setting standards in Canada. – A consultation paper was released for comment in May 2018 and has closed. The consultation paper described the decision-making criteria PSAB expects to consider in evaluating the international strategy that best serves the public sector. It also introduced four proposed international strategies that PSAB considers to be viable.
Concepts Underlying Financial Performance	<ul style="list-style-type: none"> – PSAB is in the process of reviewing the conceptual framework that provides the core concepts and objectives underlying Canadian public sector accounting standards. – A Statement of Concepts (“SOC”) and Statement of Principles (“SOP”) were issued for comment in May 2018 and has closed. – The SOC proposes a revised, ten chapter conceptual framework intended to replace PS 1000 <i>Financial Statement Concepts</i> and PS 1100 <i>Financial Statement Objectives</i>. The revised conceptual framework would be defined and elaborate on the characteristics of public sector entities and their financial reporting objectives. Additional information would be provided about financial statement objectives, qualitative characteristics and elements. General recognition and measurement criteria, and presentation concepts would be introduced. – The SOP includes principles intended to replace PS 1201 <i>Financial Statement Presentation</i>. The SOP proposes: <ul style="list-style-type: none"> • Removal of the net debt indicator, except for on the statement of net debt where it would be calculated exclusive of financial assets and liabilities that are externally restricted and/or not available to settle the liabilities or financial assets. • Changes to common terminology used in the financial statements, including re-naming accumulated surplus (deficit) to net assets (liabilities). • Restructuring the statement of financial position to present non-financial assets before liabilities. • Removal of the statement of remeasurement gains (losses) with the information instead included on a new statement called the statement of changes in net assets (liabilities). This new statement would present the changes in each component of net assets (liabilities). • A new provision whereby an entity can use an amended budget in certain circumstances. – Inclusion of disclosures related to risks and uncertainties that could affect the entity’s financial position.

Appendices



Appendix 1: Audit quality and risk management



Appendix 2: KPMG's audit approach and methodology



Appendix 3: Lean in Audit™



Appendix 4: Required Communications



Appendix 5: Expected form of report



Appendix 6: Audit approach





Appendix 1: 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 our [Audit Quality Resources](#) page for more information including access to our audit quality report, *Audit quality: Our hands-on process*.

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.

We do not offer services that would impair our independence.



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.

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.

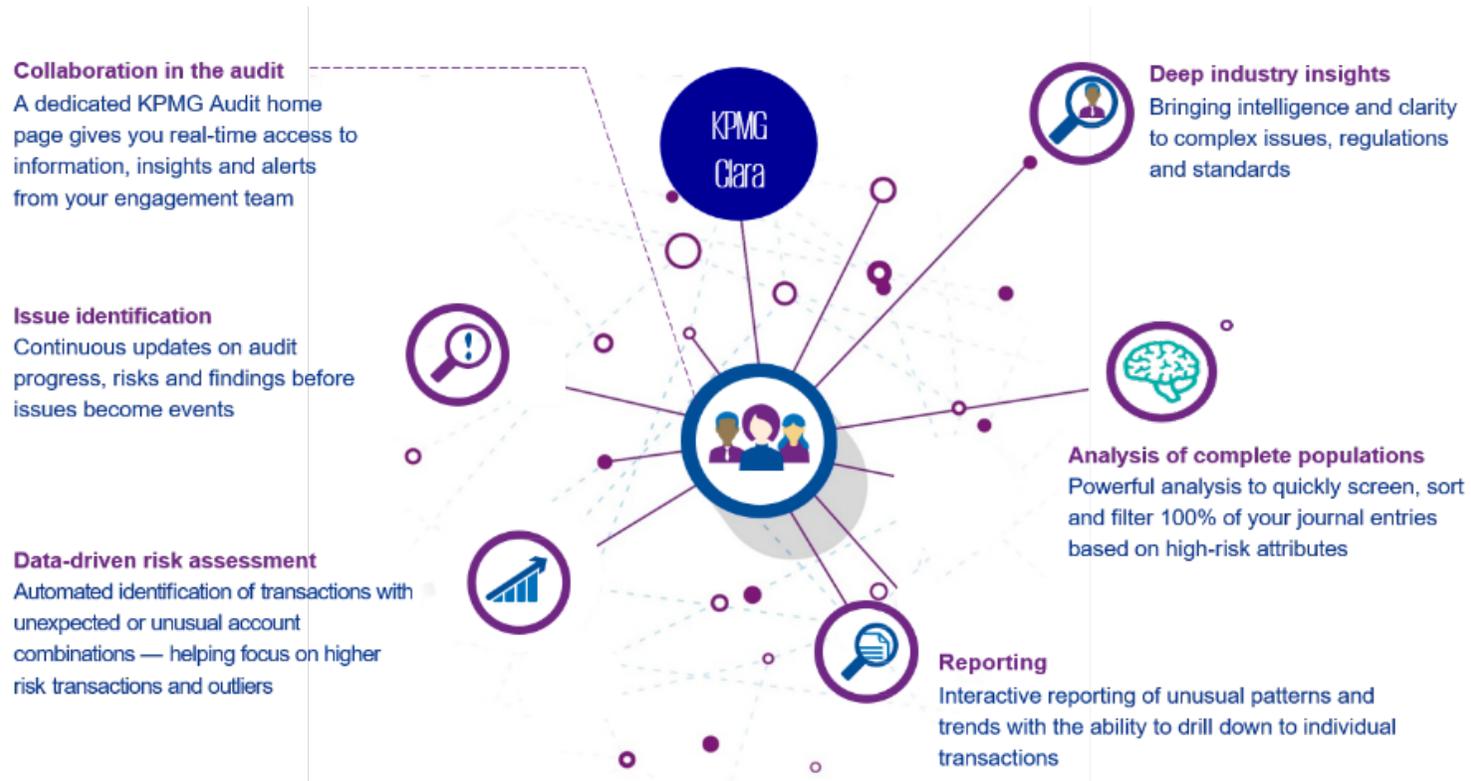
We have policies and procedures for deciding whether to accept or continue a client relationship or to perform a specific engagement for that client.

Existing audit relationships are reviewed annually and evaluated to identify instances where we should discontinue our professional association with the client.



Appendix 2: KPMG's audit approach and methodology

This year we will expand our use of technology in our audit through our new smart audit platform, KPMG Clara.





Appendix 3: Lean in Audit™



An innovative approach leading to enhanced value and quality

Our new innovative audit approach, Lean in Audit, further improves audit value and productivity to help deliver real insight to you. Lean in Audit is process oriented, directly engaging organizational stakeholders and employing hands-on tools, such as walkthroughs and flowcharts of actual financial processes.

By embedding Lean techniques into our core audit delivery process, our teams are able to enhance their understanding of the business processes and control environment within your organization – allowing us to provide actionable quality and productivity improvement observations.

Any insights gathered through the course of the audit will be available to both engagement teams and yourselves. For example, we may identify control gaps and potential process improvement areas, while companies have the opportunity to apply such insights to streamline processes, inform business decisions, improve compliance, lower costs, increase productivity, strengthen customer service and satisfaction and drive overall performance.



How it works

Lean in Audit employs three key Lean techniques:



1. Lean training

Provide basic Lean training and equip our teams with a new Lean mindset to improve quality, value and productivity.



2. Interactive workshops

Perform interactive workshops to conduct walkthroughs of selected financial processes providing end to end transparency and understanding of process and control quality and effectiveness.



3. Insight reporting

Quick and pragmatic insight report including your team's immediate quick win actions and prioritized opportunities to realize benefit.



Appendix 4: 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:



Engagement letter

The objectives of the audit, our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter and any subsequent amendment letters as provided by management.



Management representation letter

We will obtain from management certain representations at the completion of the annual audit. In accordance with professional standards, copies of the representation letter will be provided to the Board.



Audit planning report

As attached.



Audit findings report

At the completion of our audit, we will provide a report to the Board.



Required inquiries

Professional standards require that during the planning of our audit we obtain your views on risk of fraud and other matters. We make similar inquiries to management as part of our planning process; responses to these will assist us in planning our overall audit strategy and audit approach accordingly.



Appendix 5: Expected form of report

To the Chair and Directors of the Capital Regional Hospital District

Opinion

We have audited the financial statements of the Capital Regional Hospital District (the District), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of operations for the year then ended
- the statement of changes in net debt for the year then ended
- the statement of cash flows for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the District as at December 31, 2018, and its results of operations, its changes in net debt, 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 “Auditors’ Responsibilities for the Audit of the Financial Statements” section of our auditors’ report.

We are independent of the 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 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.



Appendix 5: Expected form of report (continued)

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 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 District or to cease operations, or has no realistic alternative but to do so.

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



Appendix 5: Expected form of report (continued)

Auditors' 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 auditors' 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 the 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 District's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 auditors' 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 auditors' report. However, future events or conditions may cause the 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.
- 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.



Appendix 6: Audit Approach

Account	Audit Approach
Cash and Investments	<ul style="list-style-type: none">– Confirm year end balances with financial institutions– Review year end bank reconciliations and cut-off of transactions at year end
Tangible Capital Assets	<ul style="list-style-type: none">– Inspect and verify the mathematical accuracy of the capital asset continuity schedule– Inspect a sample of capital asset additions including the underlying source documentation– Assess accounting treatment and policy of capital expenditures and expenditures related to Summit at Quadra Village Project– Review any significant new contracts related to Summit at Quadra Village Project– Review a sample of capital asset additions including the underlying source documentation related to Summit at Quadra Village Project
Accounts Payable	<ul style="list-style-type: none">– Perform cut-off testing to determine if all expenses relating to fiscal 2018 have been recorded in the correct period– Review and recalculate significant accruals at year end
Long-term debt and Interest on long-term debt	<ul style="list-style-type: none">– Confirm year end balances, interest paid and accrued with financial institutions– Inspect associated bylaws
Revenue	<ul style="list-style-type: none">– Inspect Board approved budget for requisitions value and compare to revenue– Inspect associated bylaws– Perform substantive analytical procedures of actual to budget
Expenses	<ul style="list-style-type: none">– Select a sample of expenditures, compare sample to source documentation, payment and authorization– Perform substantive analytical procedures of actual to budget



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