APPENDIX A

Audit Findings Report

For the Year ended March 31, 2016

Annual General Meeting

June 20, 2016

MUSKOKA ALGONQUIN HEALTHCARE

KPMG
cutting through complexity

Muskoka Algonquin Healthcare

Audit Findings Report
For the year ended March 31, 2016

KPMG LLP

Chartered Professional Accountants,
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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 Audit Committee, in your review of the results of our audit of the financial statements of Muskoka Algonquin Healthcare (the "Hospital") as at and for the year ended March 31, 2016.

We appreciate the assistance of management and staff in conducting our audit. We hope this audit findings report is of assistance to you for the purpose above, and we look forward to discussing our findings and answering your questions.

Changes from the Audit Plan

There have been no significant changes in our planned approach as designed by KPMG.

Audit risks and results

Based on our audit procedures, including discussions with management, we have not identified any significant financial reporting risks that would impact the Hospital's financial reporting.

Adjustments and differences

We did not identify differences that remain uncorrected.

We have not identified any corrected misstatements.

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 amongst others:

- Completing any required communications with the Hospital.
- Obtaining evidence of the Hospital's approval of the financial statements.
- Obtaining 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.

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

Executive summary (continued)

Audit Materiality

We determined materiality by using prior year audited revenues as a benchmark and applying 1.0%. The audit misstatement posting threshold was set at $40,000.

Using year-end actual revenues did not result in a significant change to the materiality level determined above.

Fraud risks and results

See *Page 5*.

We discussed with you some considerations over fraud risks as required by professional standards.

Control and other observations

As a result of our audit procedures, we have not identified any matters relating to weaknesses in the Hospital's system of internal controls or financial reporting processes.

Critical accounting estimates

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

Accounting estimates are disclosed in note 1 to the financial statements.

Significant accounting policies

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

The significant accounting policies selected by the Hospital are presented in the notes to the financial statements. The Hospital has applied these policies consistently throughout the year ended March 31, 2016.

Financial statement presentation and disclosure

The presentation and disclosure of the financial statements are in accordance with the Hospital's relevant financial reporting framework, which is Canadian public sector accounting standards.

There were no misstatements, including omissions, if any, related to disclosure or presentation items.

Financial reporting risks and results

Inherent risk 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.

Our assessment of inherent risk is based on various factors, including the size of the balance, its inherent complexity, the level of uncertainty in measurements, as well as significant external market factors or those particular to the internal environment of the entity.

Areas of focus	Why	Audit findings
Revenue recognition	The Provincial HSFR model introduces complexity into the calculation of revenues for QBPs. As well, a number of other funding sources may be contingent upon the Hospital achieving certain milestones with respect to performance or expenditures.	We have tested management's calculations of revenues, including reviewing supporting documentation for procedures performed. Based on the results of our audit procedures, no audit differences were noted.
Employee-related liabilities	The Hospital has accrued management estimates for a number of significant employee-related liabilities, including pay equity, grievances and employee future benefits.	We performed the necessary audit procedures over management's estimates, including assessing the reasonableness of key assumptions and performing a retrospective review of prior year's estimates. Employee-related liabilities addressed by our audit procedures included: - Grievances and arbitration - Unsettled contracts - Termination benefits, including salary continuance arrangements - Pay equity settlements Our audit procedures extended beyond the Hospital's financial function to include consultation with its HR function as well other KPMG offices to gain a sense as to common practice for employee-related liabilities. Based on the results of our audit procedures, no audit differences were noted.
Capitalization of EMR project costs	The Hospital is currently implementing a new EMR system, with $1.9 million capitalized during the current year.	We assessed the basis for the capitalization of EMR project costs, including salaries capitalized as part of the overall project, to assess management's assertion that the costs incurred represented a capital asset as opposed to an operating expense. Based on the results of our audit procedures, no audit differences were noted.

Fraud risks and results

Professional standards presume the risk of fraudulent revenue recognition and the risk of management override of controls exist in all companies.

The risk of fraudulent recognition can be rebutted, but the risk of management override of control cannot because management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Areas of focus	Why	Audit findings
Fraud risk from revenue recognition	This is a presumed fraud risk. Management may have the incentive to overstate revenues through overstatement of shareable costs in order to achieve the intended financial results.	Our audit procedures test for potential overstatement of revenues through: • Testing of journal entries • Testing of QBP and other performance based funding to ensure appropriate revenue recognition Based on the results of our audit procedures, no audit misstatements were identified.
Fraud risk from management override of controls	This is a presumed fraud risk. Management may override internal controls in order to perpetrate or conceal fraud.	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, as well as other procedures as considered appropriate by us.

Financial statement presentation and disclosure

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

We also highlight the following:

Form, arrangement, and content of the financial statements	• The form, arrangement and content of the financial statements has been reviewed as part of our audit procedures as is considered to be adequate. • The financial statements contain note disclosure, including continuity information, for significant financial statement items.
Application of accounting pronouncements issued but not yet effective	No concerns are identified at this time regarding future implementation of accounting pronouncements.

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.

Professional standards require that we request of management and the audit committee that all identified adjustments or differences be corrected. We have already made this request of management.

Corrected adjustments

There were no identified corrected misstatements during the course of the audit.

Uncorrected differences

Based on the results of our audit procedures, we have not identified any uncorrected differences considered to be other than clearly trivial.

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.

Based on the results of our audit procedures, we have not identified any observed weaknesses in the Hospital's system of internal controls and financial reporting processes.

Appendices

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 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 2: KPMG's audit approach and methodology

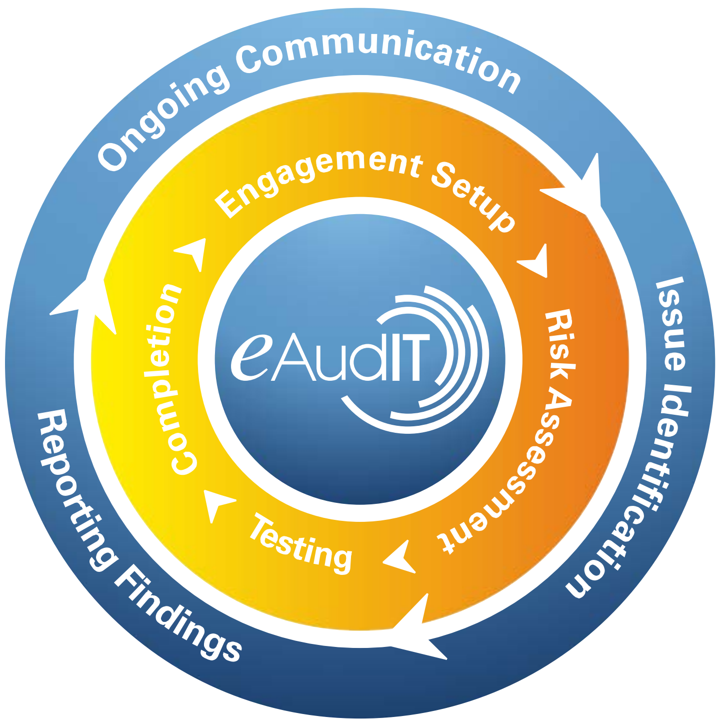
Technology-enabled audit work flow (eAudIT)

Engagement Setup

- Tailor the eAudIT work flow to your circumstances
- Access global knowledge specific to your industry
- Team selection and timetable

Completion

- Tailor the eAudIT work flow to your circumstances
- Update risk assessment
- Perform completion procedures and overall evaluation of results and financial statements
- Form and issue audit opinion on financial statements
- Obtain written representation from management
- Required Audit Committee communications
- Debrief audit process



Risk Assessment

- Tailor the eAudIT work flow to your circumstances
- Understand your business and financial processes
- Identify significant risks
- Plan involvement of KPMG specialists and others including external experts, internal auditors, service organizations auditors and component auditors
- Determine audit approach
- Evaluate design and implementation of internal controls

Testing

- Tailor the eAudIT work flow to your circumstances
- Test operating effectiveness of internal controls (as considered necessary)
- Perform substantive tests

Appendix 3: Current developments

The following is a summary of the current developments that are relevant to the Hospital.

Standard	Summary and implications
PS Introduction	This standard provides the standards to be followed by government partnerships. Government business partnerships (with all public sector partners) are to follow the standards applicable to publicly accountable entities in Part I of the *CPA Canada Handbook Accounting*. Non-business government partnerships with only government partners can chose either PSA Standards or the standards applicable to publicly accountable entities in Part I of the *CPA Canada Handbook Accounting*. Government partnerships that have one or more private sector partners should use the standards determined by the partners. This section also requires government organizations that meet the new definition of government components to apply the PSA Standards This standard is effective for fiscal periods beginning on or after January 1, 2017
PS 3210 - Assets	This standard provides a definition of assets and further expands that definition as it relates to control. Assets are defined as follows: • They embody future economic benefits that involve a capacity, singly or in combination with other assets, to provide goods and services, to provide future cash inflows, or to reduce cash outflows. • The public sector entity can control the economic resource and access to the future economic benefits. • The transaction or event giving rise to the public sector entity's control has already occurred. The standard also includes some disclosure requirements related to economic resources that are not recorded as assets to provide the user with better information about the types of resources available to the public section entity. This standard is effective for fiscal periods beginning on or after April 1, 2017

Standard	Summary and implications
PS 3380 – Contractual Rights	This standard defines contractual rights to future assets and revenue. Information about a public sector entity's contractual rights should be disclosed in notes or schedules to the financial statements and should include descriptions about their nature and extent and the timing. The standard also indicates that the exercise of professional judgment would be required when determining contractual rights that would be disclosed. Factors to consider include, but are not limited to: (a) contractual rights to revenue that are abnormal in relation to the financial position or usual business operations; and (b) contractual rights that will govern the level of certain type of revenue for a considerable period into the future. This standard is effective for fiscal periods beginning on or after April 1, 2017.
PS 2200 Related Party Disclosures	This standard relates to related party disclosures and defines related parties. Related parties could be either an entity or an individual. Related parties exist when one party has the ability to control or has shared control over another party. Individuals that are key management personnel or close family members may also be related parties. Disclosure is only required when the transactions or events between related parties occur at a value different from what would have been recorded if they were not related and the transactions could have a material financial impact on the financial statements. Material financial impact would be based on an assessment of the terms and conditions underlying the transaction, the financial materiality of the transaction, the relevance of the information and the need for the information to enable the users to understand the financial statements and make comparisons. This standard also specifies the information required to be disclosed including the type of transactions, amounts classified by financial statement category, the basis of measurement, and the amounts of any outstanding items, any contractual obligations and any contingent liabilities. The standard also requires disclosure of related party transactions that have occurred where no amounts has been recognized. This standard is effective for fiscal periods beginning on or after April 1, 2017.

Standard	Summary and implications
PS 3430 Restructuring Transactions	A restructuring transaction in the public sector differs from an acquisition as they generally include either no or nominal payment. It also differs from a government transfer as the recipient would be required to assume the related program or operating responsibility. The standard requires that assets and liabilities are to be measured at their carrying amount. It also prescribes financial statement presentation and disclosure requirements. This standard is effective for fiscal periods beginning on or after April 1, 2018 .
PS 3420 Inter-entity Transactions	This standard relates to the measurement of related party transactions and includes a decision tree to support the standard. Transactions are recorded a carrying amounts with the exception of the following: • In the normal course of business – use exchange amount • Fair value consideration – use exchange amount • No or nominal amount – provider to use carrying amount; recipient choice of either carrying amount or value fair. • Cost allocation – use exchange amount This standard is effective for fiscal periods beginning on or after April 1, 2018 .
Standard of Financial Instruments	A standard has been issued, establishing a standard on accounting for and reporting all types of financial instruments including derivatives. The effective date of this standard has recently been deterred and it is now effective for fiscal periods beginning on or after April 1, 2019. Implications: This standard will require the Hospital to identify any contracts that have embedded derivatives and recognize these on the consolidated statement of financial position at fair value. Portfolio investments in equity instruments are required to be recorded at fair value. Changes in fair value will be reported in a new financial statement – statement of remeasurement gains and losses. This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the Hospital. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type. The risks to be considered include credit, currency, interest rate, liquidity, and market risk.

Standard	Summary and implications
Revised Standard on Foreign Currency Translation	A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency. The effective date of this standard has been deferred and is effective for fiscal periods beginning on or after April 1, 2019. Earlier adoption is permitted. An entity early adopting this standard must also adopt the new financial instruments standard. Implications: Exchange gains and losses arising prior to settlement are recognized in a new statement of remeasurement gains and losses.
PS 3320 – Contingent Assets	This standard defines contingent assets. They have two basis characteristics: • An existing condition or situation that is unresolved at the financial statement date. • An expected future event that will resolve the uncertainty as to whether an asset exists. The standard also has specific disclosure requirements for contingent assets when the occurrence of the confirming event is likely. This standard is effective for fiscal periods beginning on or after April 1, 2017.

Topic	Summary and implications
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

Topic	Summary and implications
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