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AUDIT

Wellington-Dufferin-Guelph Public Health

Audit Findings Report
For the year ended December 31, 2017

KPMG LLP

April 4, 2018

kpmg.ca



The contacts at KPMG in
connection with this report are:

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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 Wellington-Dufferin-Guelph Public Health (WDGPH) as at and for the year ended December 31, 2017.

This Audit Findings Report builds on the Audit Plan we presented to the Audit Committee previously.

Changes from the Audit Plan

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

Audit risks and results

We discussed with you at the start of the audit areas of **significant risks** and other areas of audit emphasis.

These included a presumed risk of management override of controls and fraudulent revenue recognition (associated with cut-off). We are satisfied that our audit work has appropriately dealt with these risks.

See page 6.

Executive summary (continued)

Finalizing the audit

As of April 4, 2018 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 audit committee;
- Obtaining evidence of the Board's approval of the financial statements.
- receipt of signed management representation letter
- receipt of legal letters

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

No significant deficiencies come to our attention.

Critical accounting estimates

Overall we are satisfied with the reasonability of **critical accounting estimates** taken. Note 2 in the financial statements refers to estimates which management believes are significant.

Independence

KPMG LLP is independent of Wellington Dufferin Guelph Public Health.

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Financial Highlights

Total Surplus (annual revenues over expenditures)	\$195K	Revenues relatively consistent year over year, with expenditures increased by \$500K. Increased expenditures in 2017 with respect to the Harm Reduction Program (\$150K), Preschool Speech & Language (\$230K), would contribute much of the increased expenditures year-over-year.
Long-Term Debt	\$12.5M	Decreased substantially year-over year due to scheduled repayments to municipalities and additional lump sum repayment in April 2017.
Tangible Capital Assets	\$24.5M	Decreased year-over year, driven by lower level of capital additions in the current year, and due to the fact that amortization expense exceeded capital additions during the year. Majority of capital additions in the fiscal year pertained to technology/communications and equipment.
Expenditure Recoveries	Decreased 5%	Contraceptive sales and TB skin tests decreased significantly year over year. Revenues derived from these sources decreased 40%. The above decreases are partially off-set by the increase in HPV vaccinations of 35% over 2016 figures. Overall recoveries were down from prior year, and below that of budgeted figures.
Cash Flows		Net decrease in cash of \$1M for fiscal 2017. Cash flows from operations provided \$2.6M, while \$0.9M was used to acquire capital assets, and \$2.7M was used to repay long-term debt owed to the three municipalities. Cash balance at the end of the year, being December 31, 2017 amounted to \$7.9M.

Audit 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.

We highlight our significant findings in respect of significant financial reporting risks as identified in our discussion with you in the Audit Plan, as well as any additional risks identified.

Significant financial reporting risks

Why

Our significant findings from the audit

Management override of controls	A requirement under Canadian Audit Standards- risk of fraud.	<p>As outlined in our audit planning report we have evaluated the design and implementation of internal controls over manual journal entries, and the respective review that takes place.</p> <p>In addition we have performed substantive procedures on journal entries related to financial reporting. KPMG performed routines over journal entries that met criteria deemed to contain a risk of management override. KPMG used computer aided audit techniques to assist with this section of the audit.</p> <p>Routines were run whereby criteria would identify journal entries with identified risks. KPMG examined a sample of these entries to ensure there was appropriate business merit/support for the entry that was being recorded.</p> <p>No instances of management override were identified as a result of our engagement team's procedures performed.</p>
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Other areas of focus

Other areas of focus for our audit, as identified in our discussion with you in the Audit Plan, include the following:

Other areas of focus	Why	Our significant findings from the audit
Tangible Capital Assets	Significance of account balance	<ul style="list-style-type: none"> • We performed a number of testing procedures around tangible capital assets, testing a sample of additions made during the fiscal year and agreeing to invoice supporting documentation to ensure items were capital in nature • Larger additions in F2017 pertained to LED light fixtures, computer servers, schedule 9 provides additional clarity on the additions by category • Overall a less capital intensive year, with additions of \$870K compared to \$1,360K approximately 60% of previous year additions • We performed analytical procedures on amortization expense recorded during the year • Repair & Maintenance expenditure testing performed to assist with the assessment of the completeness of capital assets during the fiscal year
Payroll Expenditures	Significance of account balance	<ul style="list-style-type: none"> • Analytical procedures were performed over payroll expenditures recorded in fiscal 2017 • In addition, specific salary expenditures on an individual basis were examined to ensure that classification was appropriate per individual's contract role.

Cash	Significance of account balance	<ul style="list-style-type: none"> • WDGPH has significant cash balances • We confirmed directly with the entity's financial institution, to confirm cash balance as at year end to ensure consistent with balances per the general ledger reconciliations • Testing procedures on outstanding cheques were performed at year end in addition to deposits in transit at year end.
Long Term Debt	Significance of account balance	<ul style="list-style-type: none"> • As at year end WDGPH has \$12.5M dollars of debt, held by the three municipalities. KPMG confirmed balances directly with each municipality • Review of note disclosure in the financial statements
Revenue	Significance of account balance	<ul style="list-style-type: none"> • We confirmed funding directly with MOHLTC • We confirmed funding directly with municipalities • Agreement of funding agreements for specific programs (HBHC, PSL etc.)
Expenditures	Significance of account balance and impact on program revenue	<ul style="list-style-type: none"> • Considered to be the expenditures other than salary, wages, benefits • We performed sampling over program expenditures agreeing expenditures to supporting documentation
Payables & Accruals		<ul style="list-style-type: none"> • Specific item testing of significant accruals • Performance of search for unrecorded liabilities

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.

Significant accounting policies and practices are disclosed in Note 2 to the financial statements.

Other matters

Professional standards require us to communicate to the Audit Committee Other Matters, such as material inconsistencies or material misstatements between MD&A and the audited financial statements, identified fraud or non-compliance with laws and regulations, consultations with other accountants, significant matters relating to the Company's related parties, significant difficulties encountered during the audit, and disagreements with management.

Other matters

We have highlighted below other significant matters that we would like to bring to your attention:

Matter	KPMG comment
Comparative Information	<ul style="list-style-type: none"> Note 13 outlines that certain comparative information has been reclassified with respect to 2016 comparative figures in the statement of operations. This pertains primarily to a reclassification to contracted services which had been previously classified as salary/wages, and considered to be more reflective of contracted services. No impact on annual surplus, or accumulated surplus.
Commitment & Contingencies	<ul style="list-style-type: none"> Topic added for discussion during the meeting
Interest Income	<ul style="list-style-type: none"> \$75K generated on an annual basis with an average cash balance of \$7.5M in cash This approximates a return of approx. 1%. Common return for liquid cash balance <p>— Is there a potential to generate greater return if entire cash balance is not required to be liquid?</p> <p>— GIC's could secure rates (12-18 months) of approximately 1.5 -2.0%</p> <p>— Municipal bonds could attract 2-3%</p> <p>— Management should consider a cash flow forecast to identify if increased returns could be generated on cash, if balance not required in the short-run, and consider an investment policy to assist with determination of appropriate investment options</p>

Audit adjustments and differences

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

Although the uncorrected differences have no effect on our auditors' report, these uncorrected differences or the underlying matters regarding adjustments or differences (e.g., control deficiencies) could potentially cause future annual or interim financial statements to be materially misstated or have an implication on the financial reporting process.

Corrected audit adjustments

There were no required corrections.

Uncorrected audit differences

Refer to schedule on page 12, and the management representation letter for an uncorrected audit difference identified.

Audit adjustments and differences (continued)

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

As at and year ended December 31, 2017

Uncorrected Audit Misstatements

Description of misstatements greater than \$32,000 individually Amounts in '000s	Income effect (Decrease) Increase	Financial position		
		Assets (Decrease) Increase	Liabilities (Decrease) Increase	Surplus (Decrease) Increase
Vacation payable Vacation balance overstatement identified by management, and intended to be corrected through fiscal 2018.	7	-	(57)	57
Total Differences	7	-	(57)	57

Appendices

Appendix 1: Required communications

Appendix 2: Management Representation Letters

Appendix 3: Audit Quality and Risk Management

Appendix 4: Background and professional standards

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 standards, copies of the representation letter will be provided to the Audit Committee.
- **Management representation letter** – we will obtain from management at the completion of the annual audit. In accordance with professional

Appendix 2: Management Representation Letter

KPMG LLP
115 King Street South
2nd floor
Waterloo, ON N2J 5A3
Canada

May 2, 2018

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 Wellington Dufferin Guelph Public Health Unit ("the Entity") as at and for the period ended December 31, 2017.

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 December 3, 2015, 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, including the names of all related parties and information regarding all relationships and transactions with related parties, 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. Management also acknowledges and understands that they are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.
 - 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, 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.

MISSTATEMENTS:

- 9) 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:

- 10) 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,

By: Ms. Shanna O'Dwyer, CPA, CA, Manager, Finance

By: Nicola Mercer, MD, MBA, MPH, FRCPC, Medical Officer of Health & CEO

cc: Audit Committee

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 PS 2200 *related party* is defined as:

- Related parties exist when one party has the ability to exercise control or shared control over the other. Two or more parties are related when they are subject to common control or shared control. Related parties also include key management personnel and close family members.

In accordance with PS 2200 a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party. These transfers are related party transactions whether or not there is an exchange of considerations or transactions have been given accounting recognition. 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.



Attachment II- Audit Misstatements

Wellington Dufferin Guelph Public Health

Activity 4.5.7: Summary of Uncorrected Audit Misstatements

12/31/2017

Amounts in CAD \$
 Roll Over
 Method Used to Quantify Audit Misstatements Method
 Final Materiality \$650,000

			Correcting Entry Required at Current Period End			Income Statement - Debit (Credit)			Balance Sheet Effect - Debit (Credit)				Cash Flow Effect - Increase (Decrease) according to Rollover (Income Statement) method					
ID	WP Ref	Description of misstatement	Type of misstatement	Accounts	Debit	(Credit)	Income effect of correcting the balance sheet in prior period (carryforward from PY - Column C)	Income effect of correcting current period balance sheet	Income effect according to Rollover (Income Statement) method	Equity at period end	Current Assets	Noncurrent Assets	Current Liabilities	Noncurrent Liabilities	Operating Activities	Investing Activities	Financing Activities	
				A	B (only Income Statement accounts)			C=A (Only Income Statement accounts)	D=C-B	E = (B + D = C) + OCI entries								
<i>(Pre-tax entries)</i>																		
		Vacation entitlement has been provided for employees in advance of Jan 1, 2018, awarded vacation for fiscal 2018 year entitlement, policy for senior team members		Vacation Payable	57.00									57.00				
				Opening accumulated surplus		(50.00)				(50.00)								
			Factual	Vacation expense		(7.00)		(7.00)	-	(7.00)								
Aggregate effect of uncorrected audit misstatements (before tax):							0	(7.00)	-	(57.00)	0	0	0	57	0	0	0	0
<i>(Tax entries)</i>																		
		N/A- Non taxable entity																
Aggregate effect of uncorrected audit misstatements (after tax):							0	-	(7.00)	-57	0	0	0	57	0	0	0	0
Financial statement amounts (per final financial statements) (after tax):										(195.00)	(16,647,465.00)	32,202,499.00	(15,555,034.00)					
Uncorrected audit misstatements as a percentage of financial statement amounts (after tax):										4%	0%	#DIV/0!	0%	0%	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!

Appendix 3: 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 4: 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. During the 2016 audit we did not identify any control deficiencies.

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.

Consenting to the use of the auditors' report

When specifically engaged in the engagement letter, we will provide our consent, in writing, to the use of our auditors' report, once we have completed all of the procedures required under professional standards and no unresolved matters exist.

If there are any unresolved matters arising from the performance of the above procedures, we will inform the Audit Committee and the Board of Directors of such matters.

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