

Canadian Lawyers Liability Society  
Audit service plan for the year ending

**December 31, 2021**

To the Chairman and Members of the Audit Committee of Canadian Lawyers Liability Assurance Society (the “Audit Committee”)

Dear Audit Committee Members:

We are pleased to provide you with our audit service plan for Canadian Lawyers Liability Assurance Society (the “Society”) for the year ending December 31, 2021. We understand our responsibility to you, and we have developed a tailored audit plan that summarizes the key aspects of our audit scope and approach, our planned communications with you, our team and an estimate of our fees.

We value our role as your independent auditor. As we plan to execute the 2021 audit, we look forward to continue to build upon our working relationships with the Society and meeting your expectations for high-quality service by our team.

Our audit service plan addresses Financial Statement risks through targeted procedures, that have been developed through knowledge of your business obtained over the past several years, and are responsive to the nature of the risks, the business environment, and the regulatory landscape. We will engage our Actuarial Specialists to assist in our procedures on certain actuarial areas. We appreciate the opportunity to serve the Society. We hope the accompanying information will be useful to you, and we look forward to answering your questions about our audit plan.

This report has been provided to the Audit Committee on a confidential basis. It is intended solely for the use of the Audit Committee and the Board of Directors to assist you in discharging your responsibilities with respect to the Financial Statements for the year ending December 31, 2021 (the “Financial Statements”) and is not intended for any other purpose.

Yours truly,



Chartered Professional Accountants  
Licensed Public Accountants



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# Executive Summary






# Executive summary

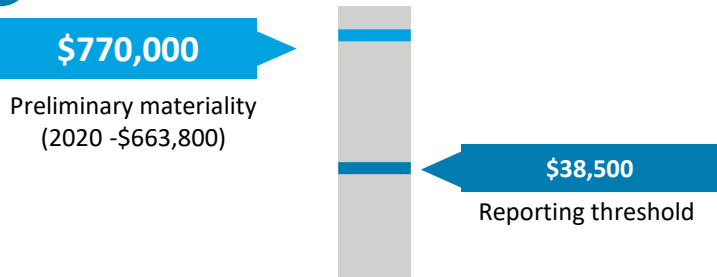
This is your roadmap to our 2021 audit service plan, within which you will find our detailed reporting on key matters of interest and planned work.

## Significant risks

	Status
1 Management override of controls	...
2 Provision for unpaid claims and adjustment expense, gross and net of amounts recoverable from reinsurers (valuation)	...

 New from prior year    Continued from prior year    Removed from prior year

## Materiality



Materiality is based on 1% of unpaid claims and adjustment expense, adjusted for unusually large claims, consistent with prior year.

We will report to the Audit Committee all uncorrected misstatements greater than our current year reporting threshold of 5% of materiality and any misstatements that are, in our judgment, qualitatively material.

## Matters of interest

### Use of Service Organizations

The Society uses RBC Investor & Treasury Services for investments custody and recordkeeping. We will obtain the service provider’s controls report and review the results to assess whether we can place reliance on relevant controls, where appropriate.

### Involvement of Specialists

We will use our actuarial specialists to assist in assessing the appropriateness of the valuation of provision for unpaid and unreported claims liabilities, gross and net of amounts recoverable from reinsurers.

### Controls in the key business cycles

We will understand and test the design and implementation of relevant controls in the key business cycles.

## Accounting standards update

- 1 Update on transition to new accounting standards IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*, see slide 13
- 2 Proposed timeline and budget for the transition to new accounting standards IFRS 17, see slide 14








# The Society's Audit Plan



# The Society's Audit Plan

## Significant risks

Significant risk	Fraud risk	Control testing planned	Level of management judgment	Specialist involvement	Audit innovation leveraged	Planned audit response
<b>Management Override of Controls</b> Management is in a unique position to override internal controls resulting in manipulation of the accounting records which could result in Financial Statements that are materially misstated.  Management override of controls is a presumed fraud risk per Canadian Auditing Standards.		D&I		N/A		<ul style="list-style-type: none"> <li>Engage in periodic fraud discussions with certain members of senior management and others, including the Audit Committee – refer Slide 10 for inquiries to be made of the Audit Committee</li> <li>Consider the potential for bias in judgements and estimates</li> <li>Test the appropriateness of large or unusual journal entries recorded in the general ledger and other adjustments using data analytical tools to identify journal entries of audit interest</li> </ul>
<b>Provision for unpaid claims and adjustment expense, gross and net of amount recoverable from reinsurers (valuation)</b> Actuarial calculation methods to determine the value of the provision and related actuarial assumptions (specifically the expected loss ratio and loss development factor) used are not appropriate.		D&I		Actuarial Specialists	N/A	<ul style="list-style-type: none"> <li>Engage our actuarial specialists in the planning and execution of our audit procedures related to this balance</li> <li>Assess the reasonableness of key assumptions and methodologies</li> <li>Assess the discount rate used and application of discounting</li> <li>Perform independent recomputations of the actuarial reserves</li> <li>Test the consistency of reserve margins over time</li> <li>Test underlying data used in the valuation including claims reserves, claims paid and premium data</li> <li>Perform tests of details by selecting a sample of claims to ensure the reserved amounts are properly supported and payments are appropriately authorized and accurately recorded</li> </ul>

### Legend



Significant level of management judgment involved



Yes



No



Management judgment required



Spotlight – journal entry analytic tool



Minimal/No management judgment involved

D+I: Planned testing of the design and implementation of key controls  
 OE: Planned testing of the operating effectiveness of key controls

# The Society's Audit Plan (cont'd)

## Drivers of Audit Complexity

Focus Areas
<b>Operations</b>
Nature of revenue streams
Nature of investment portfolio
Material exceptions for relevant controls identified at the third part service provider if any
Number of outsourced services and external parties
<b>Events and transactions</b>
Significant and unusual transactions
Related Party Transactions
<b>External environment</b>
Changes in financial reporting and regulatory requirements (IFRS 9 and IFRS 17)
Vulnerability to economic, political and technology changes





# The Society's Audit Plan (cont'd)

## Addressing fraud risk

At the Audit Committee meeting on November 8, 2021, we shall make inquiries of the Committee Members with respect to fraud, as well as your understanding of the Society's organizational changes and related party transactions and of any potential concerns. Refer to Slide 10 for fraud questions.



### Our approach to address fraud risks

- Testing of top-sided entries made to the Financial Statements to address the risk of management override of controls.
- Examine significant management judgments and accounting estimates for biases.
- Discussions with management and those charged with governance.



### Fraud characteristics

- Misstatements in the Financial Statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the Financial Statements is intentional or unintentional
- Two types of intentional misstatements are relevant to us auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of



assets

### Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintain internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations



### Our responsibilities

- We are required to obtain representation from management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement
- As auditors, we obtain reasonable, but not absolute, assurance that the Financial Statements as a whole, are free from material misstatement, whether caused by fraud or error
- As set out in the significant audit risks section of this documents, we have identified a presumed risk of fraud in management override of controls



### Our approach to address fraud risks

- Deloitte does not assume that management is dishonest nor do we assume unquestioned honesty. Rather, in accordance with Canadian GAAS, we exercise professional skepticism and recognize that the conditions we observe and evidential matters we obtain, including that obtained from prior audit engagements, need to be objectively evaluated to determine whether the Financial Statements are presented fairly in all material respects

# The Society's Audit Plan (cont'd)

## Fraud questionnaire – Audit Committee

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### Questionnaire

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- What are your views about fraud risks within the Society?
  - How do you exercise oversight over the Society's assessment of fraud risks and the establishment of controls to address fraud risks?
  - Do you have knowledge of any actual, suspected, or alleged fraud affecting the Society?
  - Are you aware of any tips or complaints regarding the Society's financial reporting (including those received through an internal whistleblower program, if such program exists)? If so, what were your responses to such tips and complaints?
  - Are you aware of instances in which the Society has entered into any significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size or nature ("significant unusual transactions")?
  - Are you aware of instances of the Society's noncompliance with laws and regulations?
  - How do you exercise oversight over management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks?
  - What are your views surrounding the risk of cybersecurity breaches? How has the anti-fraud program evolved to respond to cyber threats?
  - What is your understanding of the related party relationships and transactions? Are there any significant changes in the current year?
  - How do you monitor identification and approval of related party transactions?
  - Any related parties with dominant influence? Or any concerns around related party transactions?
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# Transition to IFRS 17 and IFRS 9



# Transition to IFRS 17 and IFRS 9

## Timeline

### Progressive Auditing of IFRS 17

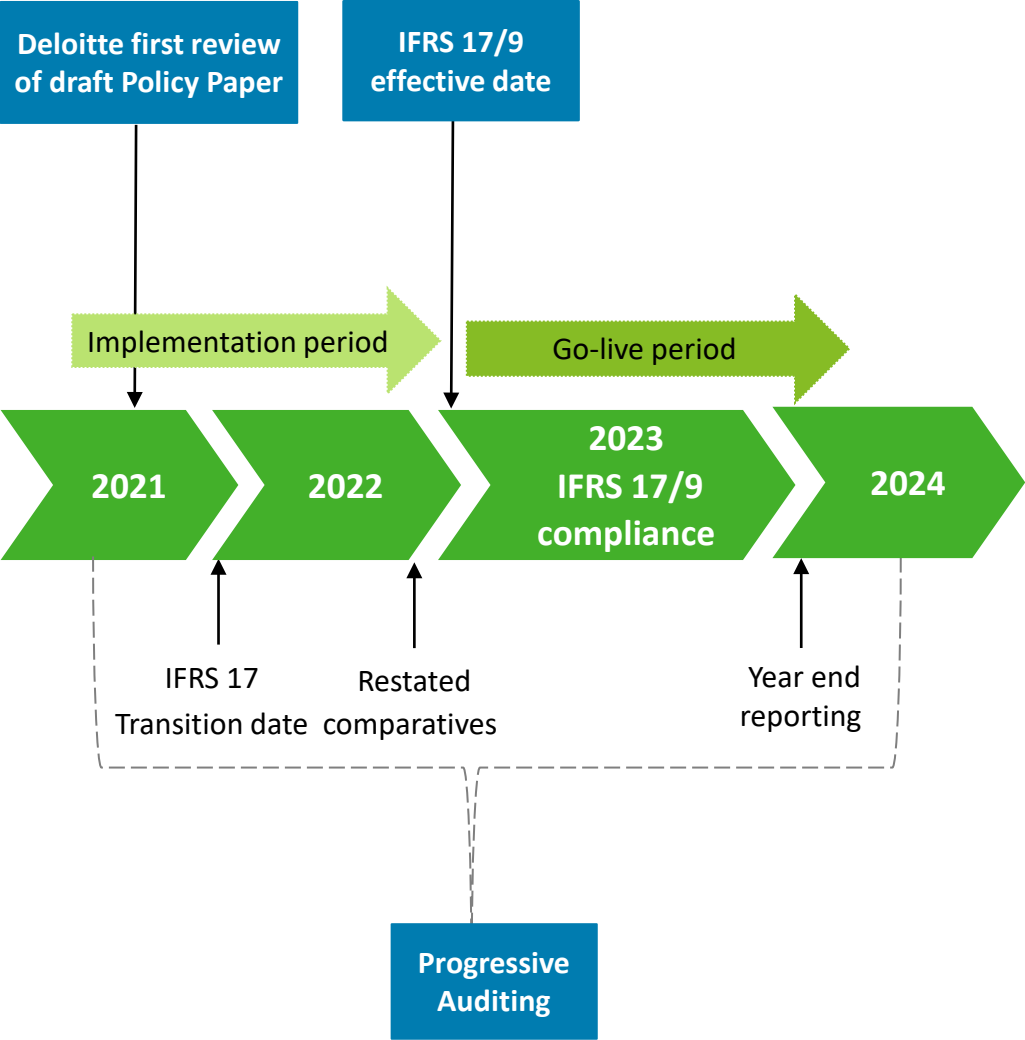
IFRS 17 *Insurance Contracts* issued in May 2017 is effective for the 2023 fiscal year, with restated comparatives for 2022. With the deferral option available to insurers, IFRS 9 *Financial Instruments* will be implemented by the Society at the same time as IFRS 17. The timeline below does not include any hours for the IFRS 9 transition. Budget and timeline for the implementation of IFRS 9 will be determined after management has determined the IFRS 9 accounting policies for the Society.

**Deloitte’s Progressive Auditing Approach of the Society’s IFRS 17 Implementation:**  
We are coordinating with management to be involved at the right times during the Society’s project timeline for IFRS 17.

Incremental Audit work*	2021	2022	2023	Audit Hours
Review and comment on draft policy position papers	✓			10
Review and comment on draft IFRS 17 Financial Statement presentations, accounting policy wordings and disclosures		✓		30
Review and comment on final policy position papers, including audit documentation of assessment		✓	✓	30
Test transition adjustments as at January 1, 2022		✓		60
Test 2022 comparatives and 2023, including determination of : <ul style="list-style-type: none"><li>- Discount Rate</li><li>- Risk Adjustment</li><li>- Insurance Service Result: Revenue and Insurance Service Expense</li><li>- Insurance Finance Income and Expense</li></ul>		✓	✓	84
Test new IFRS 17 processes and controls over transition adjustments		✓	✓	TBD
Test of 2022 and 2023 IFRS 17 Financial Statement note disclosures			✓	50
Mapping of IFRS 4 GL accounts to reflect IFRS 17 requirements and policy positions			✓	40
<b>Total Hours</b>				<b>304</b>

\*Any IFRS 17 incremental costs for the audit of the MCT in 2023 is not included in the above plan. The 2023 MCGT Guideline factoring in IFRS 17 is to be published in 2022. We shall assess , scope and budget for IFRS 17 incremental work once the final Guideline is available

### IFRS 17 and 9 Timeline



# Transition to IFRS 17

## Budget

### Transition to IFRS 17: Timeline

Timeline	2021	2022	2023	Total
Estimated Hours	10	120	174	304

### Transition to IFRS 17: Costs

Total Estimated Cost	\$136,800
Discounted	\$68,400
Uncertainty adjustment (assuming 20%)	\$13,680
Proposed fee range	\$68,400-\$82,080

### Transition to IFRS 17: Analysis of Costs

#### First Time IFRS 17 Adoption Costs

Hours	222
Proposed fee range*	\$49,900-\$59,800

#### Recurring IFRS 17 Costs

Hours	82
Proposed fee range*	\$18,525-\$22,230
<b>Base 2023 Fee excluding IFRS 17.</b>	<b>\$113,200</b>
<b>Total 2023 and go forward base fee range</b>	<b>\$131,725-\$135,430</b>

\*assumes a 20% uncertainty adjustment





# Audit Quality



# Appendix 1 – Delivery Audit Quality

## Clearly focused

### Our 2020 Audit Quality Report

Our high standard for audit quality is unwavering. It's what guides us, brings us together, and keep us moving forward. Quality is, today as much as ever, our foundational focus.

In order to drive consistent results, we must continuously define what quality means, deploy the right people, apply our processes and quality-management systems, and use the power of innovative technology to sharpen the insights we provide.

The report highlights several audit quality indicators that are intended to initiate meaningful engagement level dialogue with our clients. "Ask Us" pages in the report can also be used as a starting point to spark these continuous quality focused conversations.

*In all matters of audit quality, we are clearly focused.*  
To learn more, click [here](#) to read our **2020 Audit Quality Report**.



## Did you know



**1** out of every **4.7 hrs** of our audit engagements is completed by a partner or manager.

**53.3%** increase in voluntary consultations in the first quarter of our firm's fiscal year starting June 2020.



### CPAB Fall Inspection Results

The Canadian Public Accountability Board (CPAB) is charged with assessing the state of audit quality in Canada through an annual inspection process by which it inspects all Firms serving Canada's reporting issuers. CPAB's inspection methodology includes the inspection of engagement files and an assessment of the effectiveness of the Firms' existing quality management system. CPAB issued their 2021 Interim Inspection Results report in October, prior to the completion of its 2021 inspections, to address past feedback from directors who are seeking more timely commentary on audit quality. The remaining inspections for annually and non-annually inspected firms will be completed later this fall and reported on in our annual report in March 2022. After each inspection cycle, CPAB privately reports to each Firm on the results of its inspection. CPAB's public reporting takes the form of an annual report on its views following the inspections of all Firms.

Follow this [link](#) to read the 2021 CPAB Fall Inspections Results and this [link](#) to read the 2020 CPAB Annual Inspections Results.

# Appendix 1 – Delivering Audit Quality (cont'd)

## Our commitment to you

Our commitment to audit quality means more than just “meeting the standard”.

### How we will innovate our audit approach

- **Process innovations:** continue to use Milestone and implement standardized Deloitte Way Workflows
- **Deloitte Omnia:** Continue to use innovation tools including Deloitte Connect, Excel Analytics, Spotlight and iConfirm
- **Audit quality indicators:** continue to maximize audit quality imperatives to delivery a high quality audit



### How we will deliver professional excellence

- **Professional skepticism:** we will continue to incorporate a more rigorous review of potential contradictory evidence and apply a questioning mindset in the areas of significant estimates including private investment valuations
- **Independence:** we have developed important safeguards and procedures to protect our independence and objectivity

### Where we will focus to deliver insights

- **New accounting and reporting requirements:** we will continue to work with management on upcoming changes to accounting and reporting requirements



# Audit Team, Fees, Communication and Timeline



## Appendix 2 – Engagement Team

### Team Leadership



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### Actuarial Specialist



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## Appendix 3 – Proposed Audit fees

Description	2020 (actual)	2021*	2022*	2023*
Audit of Financial Statements	\$86,714	\$95,300	\$98,100	\$101,100
Audit of MCT	\$10,433	\$11,400	\$11,800	\$12,100
<b>Total fees</b>	<b>\$97,147</b>	<b>\$106,700</b>	<b>\$109,900</b>	<b>\$113,200</b>

\*In line with our fee arrangement with the Society, our fees have been fixed for several prior years with a small annual inflationary adjustment. Our proposed fees above are for the next three years, reflecting a once off professional cost adjustment of 10% in 2021, in light of the very tight professional services market. The fees for 2022 and 2023 include an annual 3% inflationary adjustment.

The fees above exclude the following:

- Fees related to the transition to IFRS 17 – refer Page 14 for IFRS 17, once off incremental audit fees
- Fees related to the implementation of IFRS 9 to be determined after management has determined the IFRS 9 accounting policies
- Harmonized Sales Tax (HST), and
- Administrative charge at 7%

Please note that the above base fees exclude the IFRS 17 work which is included in slide 13 of this Plan, and any other scope changes (change in the business, accounting or auditing standards, unusual transactions, etc.). If the scope changes have a recurring impact on future years, the base fee will be adjusted with mutual consent and approval.

## Appendix 4 – Required Communications with Those Charged with Governance

Canadian GAAS require that we communicate to Those Charged with Governance (“TCWG”) on the following matters:

Required communication	Reference/comments
How TCWG exercise oversight over management’s process for identifying and responding to the risk of fraud and the internal control that management has established to mitigate these risks.	Within this communication, see slide 10
Whether TCWG have any knowledge of any actual, suspected or alleged fraud affecting the entity, and whether they are aware of any violations or possible violations of laws or regulations and whether they have any information that is important to our identification and assessment of risks of material misstatement.	Within this communication, see slide 10
Enquire with TCWG about their understanding of the Society's relationships and transactions with related parties that are significant to the Society and whether they have any concerns regarding relationships or transactions with related parties and, if so, the substance of those concerns.	Within this communication, see slide 10
<ul style="list-style-type: none"> <li>Objectives of the audit engagement and our responsibilities under the audit, as well as management's responsibilities.</li> <li>Form, timing and expected general content of communications, including a reference to the expected form and content of the auditor's report.</li> <li>The identity and role of the engagement partner.</li> </ul>	Engagement Letter, which was provided under separate cover
<p>An overview of the overall audit strategy, addressing:</p> <ol style="list-style-type: none"> <li>Scope and timing of the audit</li> <li>Significant risks, including fraud risks</li> <li>Nature and extent of specialized skill or knowledge needed to perform the planned audit procedures or evaluate the audit results related to significant risks (includes the use of experts/specialists)</li> <li>Extent to which we plan to use the work of the Society's internal auditors, Society personnel (in addition to internal auditors), and third parties working under the direction of management or the those charged with governance when performing the Financial Statement audit</li> <li>Extent to which we plan to use the work of others when performing the Financial Statement audit</li> <li>Names, locations, and planned responsibilities of other independent public accounting firms or others that perform audit procedures in the audit (including firms that perform audit procedures in the current-period audit, regardless of whether they otherwise have any relationship with us or other persons, who are not employed by us, that perform audit procedures in the current-period audit)</li> <li>Basis for our determination that we can serve as the principal auditor, if significant parts of the audit are to be performed by other auditors</li> </ol>	Within this communication

# Appendix 5 – Audit Timeline Detail

