

Canadian Lawyers Liability Assurance Society

Audit service plan for the year ending December 31, 2019

October 29, 2019



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To the Chair 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 ("CLLAS" or the "Society") for the year ending December 31, 2019.

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.

Our audit service plan leverages a strategy that covers specific actions we will take to address and respond to the feedback the Audit Committee and management have given us throughout the year and through our service quality assessment process. We understand your expectations for high-quality client service and attention, and our team is committed to delivering on those expectations.

Our audit plan reflects our commitment to providing you with high-quality, proactive service that is delivered with integrity, objectivity, and independence. Our audit addresses financial statement risks through targeted procedures that are responsive to the nature of the risks, including changes to the Society, the business environment, and the regulatory landscape. We also describe the protocols for communication with the Audit Committee and management and other permissible services we perform for the Society.

In our judgment, the scope and approach for the 2019 engagement are well designed and comply with all applicable professional standards, including the communications required by the Canadian Generally Accepted Auditing Standards (Canadian GAAS).

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 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 Directors to assist you in discharging your responsibilities with respect to the financial statements for the year ending December 31, 2019 (the "Financial Statements") and is not intended for any other purpose.

We look forward to meeting with you to discuss this report and answer any questions that you may have.

Yours truly,

Chartered Professional Accountants
Licensed Public Accountants

Executive summary



Executive summary

This is your roadmap to our 2019 audit service plan.

Contents



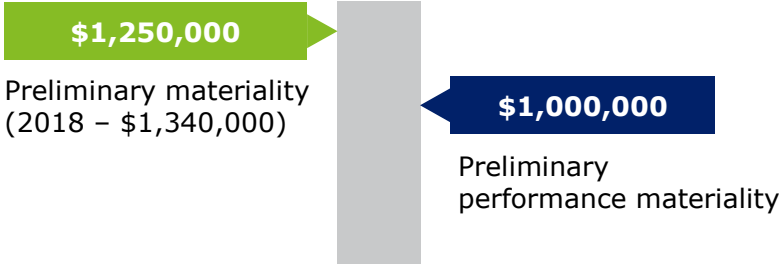
Significant Risks

Status

- | | | |
|---|---------------------------------------------------------------------------------------------------------------------|-----|
| 1 | Provision for unpaid claims and adjustment expense, gross and net of amount recoverable from reinsurers (valuation) | ... |
| 2 | Revenue Recognition | ... |
| 3 | Risk of Management Override of Controls | ... |

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

Planning materiality figures



Determined on the basis of unpaid claims and adjustment expenses, adjusted for unusually large claims, consistent with prior year. We will report to you any misstatements over our reporting threshold of 5% of materiality.

Accounting and assurance update

- | | | |
|---|-------------------------------------------------------------------------------------------------------------------|-----|
| 1 | IFRS 16 <i>Leases</i> | ... |
| 2 | Transition to new accounting standards IFRS 17 <i>Insurance Contracts</i> and IFRS 9 <i>Financial Instruments</i> | |

No significant impact Effective in 2022, see slide 13

Other Matters of Interest

Involvement of specialists

We will use our actuarial experts to assist in assessing the adequacy of the valuation of provision for unpaid and unreported claims liabilities.

Controls in the key business cycles

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

Use of service of organizations











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

The CLLAS Audit Plan



The CLLAS Audit Plan

Significant risks

Significant risk	Risk Description	Fraud risk	Control testing planned	Level of management judgement	Specialist involvement	Audit response
Provision for unpaid claims and adjustment expenses, gross and net of amount recoverable from reinsurers	Risk of measurement uncertainty due to a significant amount of judgement required by the Appointed Actuary and Management with respect to the assumptions and methodologies underlying the reserves.					<ul style="list-style-type: none"> Engage our actuarial experts in the planning and execution of our audit procedures related to this balance Assess the reasonableness of key assumptions and methodologies Assess the discount rate used as well as the application of discounting Independent recomputations of the actuarial reserves Test the consistency of reserve margins over time Test underlying data used in the valuation including claims reserves, claims paid and premium data Perform tests of details selecting a sample of claims to ensure the reserved amounts are properly supported and payments are appropriately authorized and accurately recorded
Revenue Recognition	Assurance standards include the presumption of a fraud risk involving improper revenue recognition. Revenue streams are contractually driven, although the level of manual intervention increases the risk.					<ul style="list-style-type: none"> Perform tests of details which will include, agreeing the insurance premiums to supporting documentation Obtain direct confirmation from the Society's members and test reconciling items, if any
Management Override of Controls	Management is in a unique position to override internal controls resulting in a manipulation of the accounting records which could result in Financial Statements that are materially misstated					<ul style="list-style-type: none"> Engage in periodic fraud discussions with certain members of senior management and others, including the Audit Committee Consider the potential for bias in significant management judgment and accounting estimates 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.

Legend



Significant level of management judgment involved



Management judgment required



Minimal/No management judgment involved



D&I: Planned testing of the design and implementation of key controls
We do not plan to test the operational effectiveness of controls

The CLLAS Audit Plan (con't)

Addressing fraud risk

At the Audit Committee meeting on October 29, 2019, we will make inquiries of the Audit Committee with respect to fraud, as well as your understanding of the Society's organizational changes and related party transactions and of any potential concerns.



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 as 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 maintaining 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 representations 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 document, we have identified a presumed risk of fraud in revenue recognition and management override of controls.

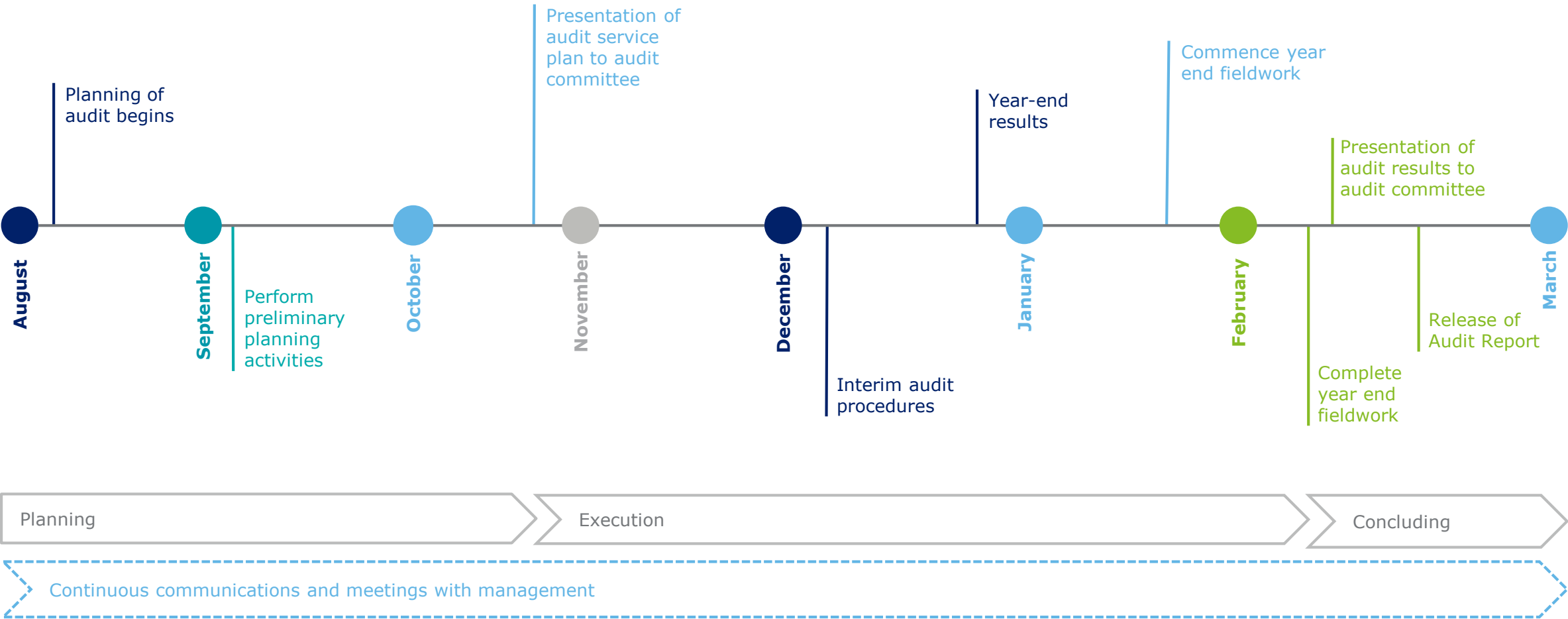
Our approach to address fraud risks:

- Focused testing on premiums written.
- Examine significant management judgements and accounting estimates for biases.
- Discussions with management and Audit Committee members.

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 matter 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 CLLAS Audit Plan (con't)

Audit timeline

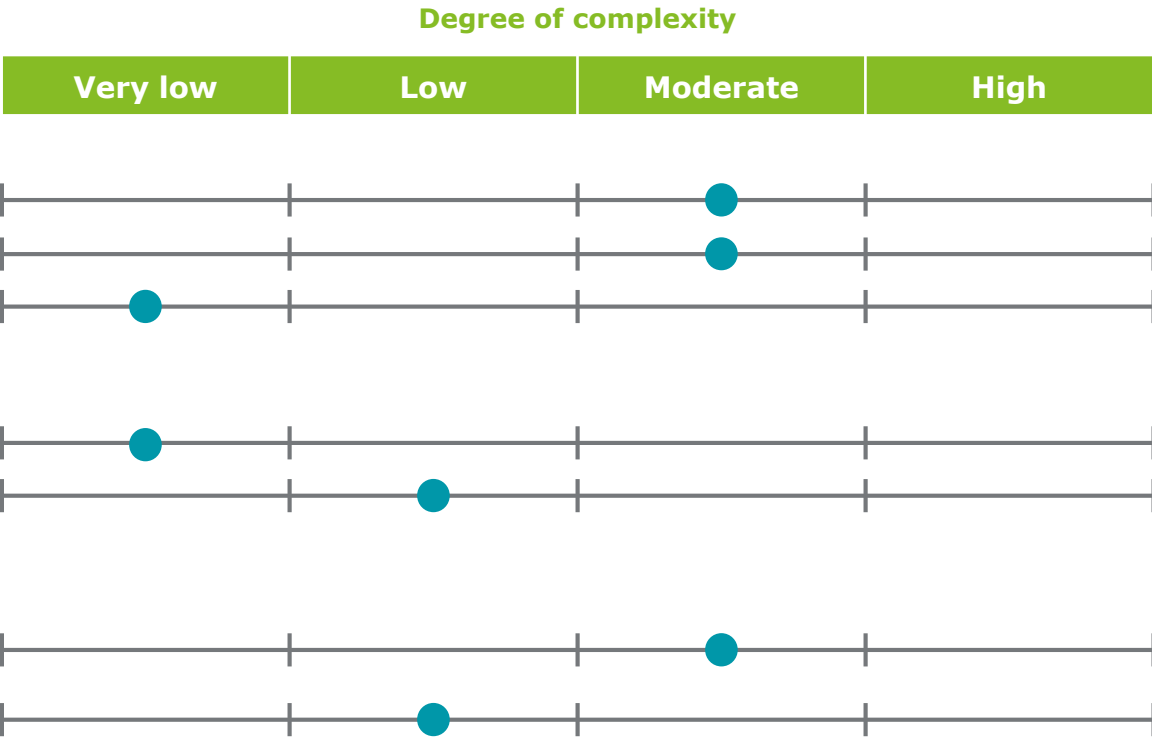


Delivering audit quality



Drivers of Audit Complexity

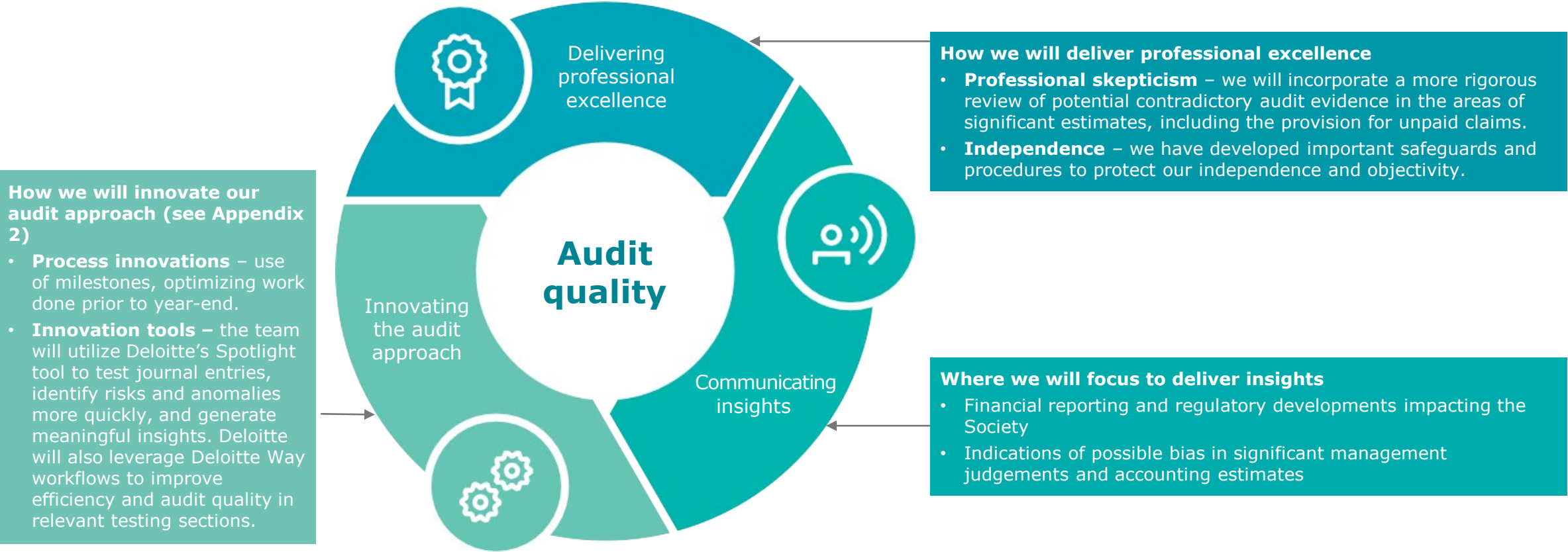
Focus Areas
Strategy and operations
Nature of revenue streams
Number of outsourced services and external parties
Organizational change
Events and transactions
Significant and unusual transactions
Related party transactions
External environment
Changes in financial reporting and regulatory requirements (IFRS 9 and IFRS 17)
Vulnerability to economic, political and technology changes



Delivering audit quality

Our commitment to you

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



Transition to new accounting standards



Insights to upcoming new IFRS standards

Transition to IFRS 17 and IFRS 9

Key Features: IFRS 9 Financial Instruments

- **Effective:** January 1, 2022* for insurance entities (January 1, 2018 for all other entities)
- Financial assets have a new model for their classification and measurement based on the entity's business model and contractual cash flow characteristics.
- Impairment standards have changed from an incurred loss model to an expected loss model.

Financial Statement Impacts

- 1 Changes to classification and measurement
- 2 New financial statement presentation and disclosures
- 3 Changes to impairment standards

Key Features: IFRS 17 Insurance Contracts

- **Effective:** January 1, 2022*
- Entities cannot realize profits immediately when the premium is written. Contracts are to be recognized based on when premiums are received
- This standard impacts modelling, data collection, processes and systems and will significantly change the financial statements presentation and disclosures.
 - Modifications in the discount rate
 - Significant changes to the income statement.

Financial Statement Impacts

- 1 Significant changes in the measurement model
- 2 New financial statement presentation and disclosures
- 3 New revenue recognition model
- 4 Changes in profit recognition

*Effective date is pending finalization of the exposure draft released June 2019

Insights to upcoming new IFRS standards

IFRS 17 Insurance Contracts

Deloitte Global IFRS 17 Survey 2018: Insurers prepare for IFRS 17 implementation

Deloitte's latest Global IFRS Insurance Survey, [2021 countdown underway: Insurers prepare for IFRS 17 implementation](#), aims to provide a comprehensive view of insurers' reactions to the new rules, as well as their perceptions on the scale and complexity of this major regulatory change, and the timelines surrounding system implementation necessary to achieve compliance.

Key findings from this latest global and independent analysis of insurers' preparations for IFRS 17 which has been undertaken by the Economist Intelligence Unit (EIU) on Deloitte's behalf, include:



Just enough time to get ready

Global insurers are cautiously confident that they will meet the implementation date with 90 percent responding that they believe they will be compliant by 1 January 2021. Of this total, 45 percent indicated strong confidence to finish on time, with health insurers being the more confident sub-group at 60 percent, and life insurers, with only 37 percent, being the more cautious sub-group. From a regional perspective, Europe is more confident than other regions.



Upgrading technology is necessary

87 percent of insurers believe their systems technology will require upgrades to capture the new data and perform the calculations required for compliance. Capturing data inputs was also cited as the largest technology challenge.



Significant implementation costs have been budgeted

The majority of insurers have now set some expectations around budget, with results showing the expected spend to be significantly greater than expectations captured in 2013. 35 percent of insurers expect to spend more than EUR 50m to meet compliance, compared with only 7 percent five years ago.



Insurers are seeing more benefits vs. cost

93 percent of global insurers feel that the benefits of adopting IFRS 17 will outweigh the cost of compliance. This is compared to only 21 percent in 2013. Overall, the top three expected benefits insurers believe they will see are:

1. Financial statements that better reflect business performance
2. Easier access to capital markets
3. Improved information to support product design



Actuarial, accounting and collaboration skills will be in high demand

Insurers cited collaboration skills as being equally as important as actuarial skills. Many of them said they would try to drive tighter integration between finance, actuarial, and other departments. They also report having the greatest difficulty in finding actuarial and accounting expertise.



Download the survey report

<https://www2.deloitte.com/global/en/pages/financial-services/articles/global-ifs-insurance-survey.html?id=gx:2em:3int:4qblifrssurvey:5awa:6fsi:20180718>

Fees



Audit fees

Description	2018 (actual)	2019	2020
Audit of financial statements	\$81,736	\$84,188	\$86,714
Audit of MCT	9,834	10,129	10,433
Total fees	\$91,570	\$94,317	\$97,147

In line with our prior three year fee arrangement for the years 2018 to 2020, we have retained our base audit fee, with an annual 3% inflationary adjustment.

The fees above exclude the following:

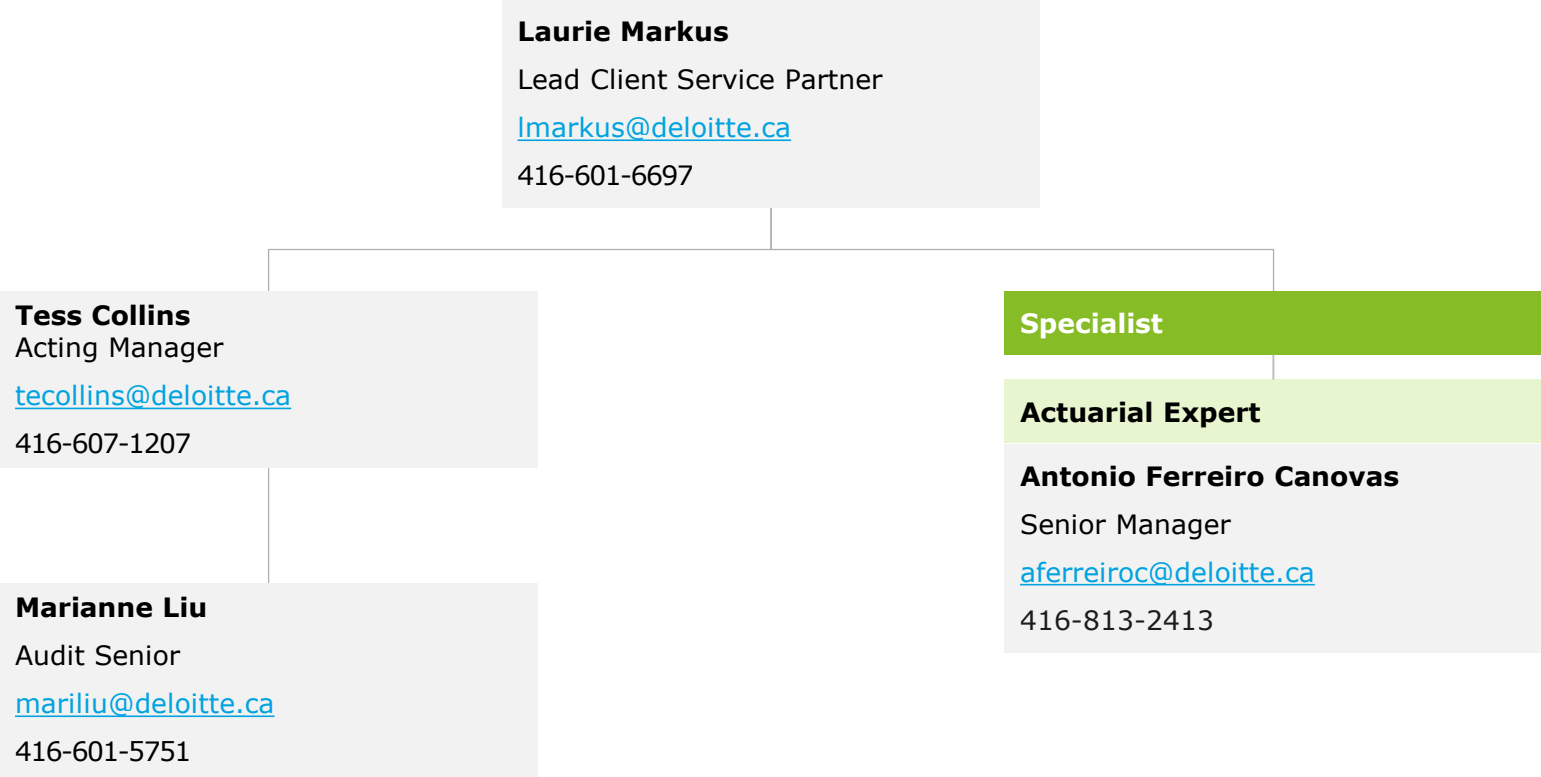
- Harmonized Sales Tax (HST), and
- Administrative charge at 7%

Please note that the above base fees exclude any scope changes (change in the business, accounting or auditing standards, unusual transactions, etc.). If the scope changes have a recurring impact on future years then the base fee will be adjusted with mutual consent and approval.

Appendices



Appendix 1 – Engagement team



Appendix 2 - Use of Innovation in our Audits

We use data interrogation, analytics, visualizations and project management tools in our audits These centralize and refine audit procedures to address identified risks more effectively and to evaluate outlier populations.



What it is: Spotlight mines journal entry data, identifies risks and anomalies more quickly, and generates meaningful insights through data visualization.

How we apply it: Spotlight is used in our journal entry testing, allowing for data interrogation and profiling populations of journal entries to identify high-risk areas that exhibit characteristics of potential fraud and error, which results in a reduction in the time necessary to perform the testing.



What it is: Deloitte’s secure, online collaboration site that facilitates a two-way exchange between the Deloitte team and management to effectively manage engagement coordination.

How we apply it: Deloitte connect is currently deployed by the team and facilitates the exchange of documents between Deloitte and CLLAS.



What it is: *The Deloitte Way* establishes a common approach to audit execution that drives increased efficiencies.

How we apply it: The team will utilize the Deloitte Way Workflows which integrate elements of audit quality and transformation, including our risk-based methodology, innovative tools, data analytics, and Regional Audit Delivery Centers .



What it is: Proprietary software that allows our team to work in a secure, collaborative environment with work-sharing functionality.

How we apply it: The team uses Engagement Management System to enable the completion of efficient and cost-effective audits, while still meeting confidentiality requirements.

Legend:  - Currently deployed on the CLLAS audit  - New deployment on the CLLAS audit

Appendix 3 – 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.	Required inquiry of the Audit Committee
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.	Required inquiry of the Audit Committee
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.	Required inquiry of the Audit Committee
<ul style="list-style-type: none">• Objectives of the audit engagement and our responsibilities under the audit, as well as management's responsibilities.• Form, timing and expected general content of communications, including a reference to the expected form and content of the auditor's report.• The identity and role of the engagement partner.	Engagement Letter
An overview of the overall audit strategy, addressing: <ul style="list-style-type: none">a. Scope and timing of the auditb. Significant risks, including fraud risksc. 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)d. 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 audit committee when performing the financial statement audite. Extent to which we plan to use the work of others when performing the financial statement auditf. 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)	Within this communication

Appendix 4 – Engagement Letter

Engagement letter will be provided under separate cover

