

Canadian Lawyers Liability Assurance Society

Audit service plan for the year ending December 31, 2020

October 21, 2020

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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, 2020.

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 economic and business environments, 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 judgement, the scope and approach for the 2020 audit 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 2020 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 Directors to assist you in discharging your responsibilities with respect to the financial statements for the year ending December 31, 2020 (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

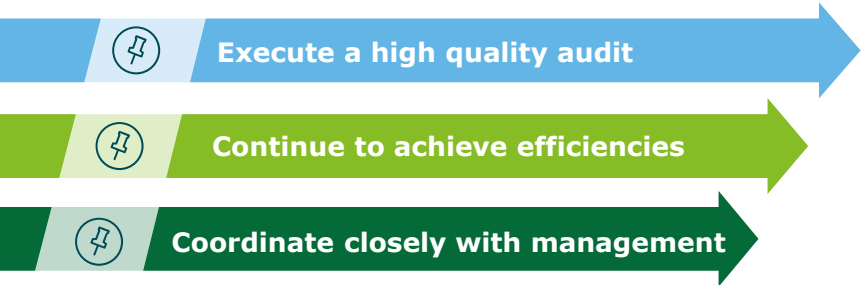
Executive summary



Executive summary

This is your roadmap to our 2020 audit service plan.

Fiscal 2020 Objectives

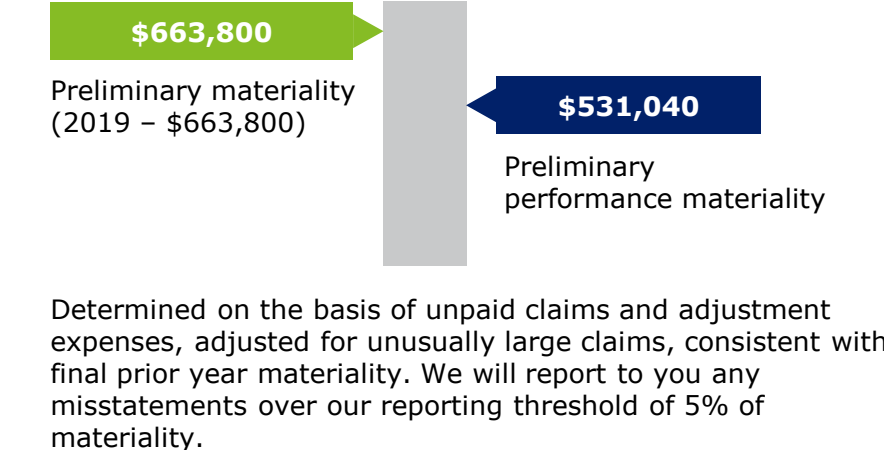


Significant Risks

	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



Accounting and assurance update

- 1 COVID-19 considerations on the audit engagement, see slides 11-13
- 2 Revised standards on Auditing Accounting Estimates and Related Disclosures, see slides 14-16
- 3 Transition to new accounting standards IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*, see Appendix 3

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 key 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 assess whether we can 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 key 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 and application of discounting Perform 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 judgements and 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 judgement involved

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

 Management judgement required

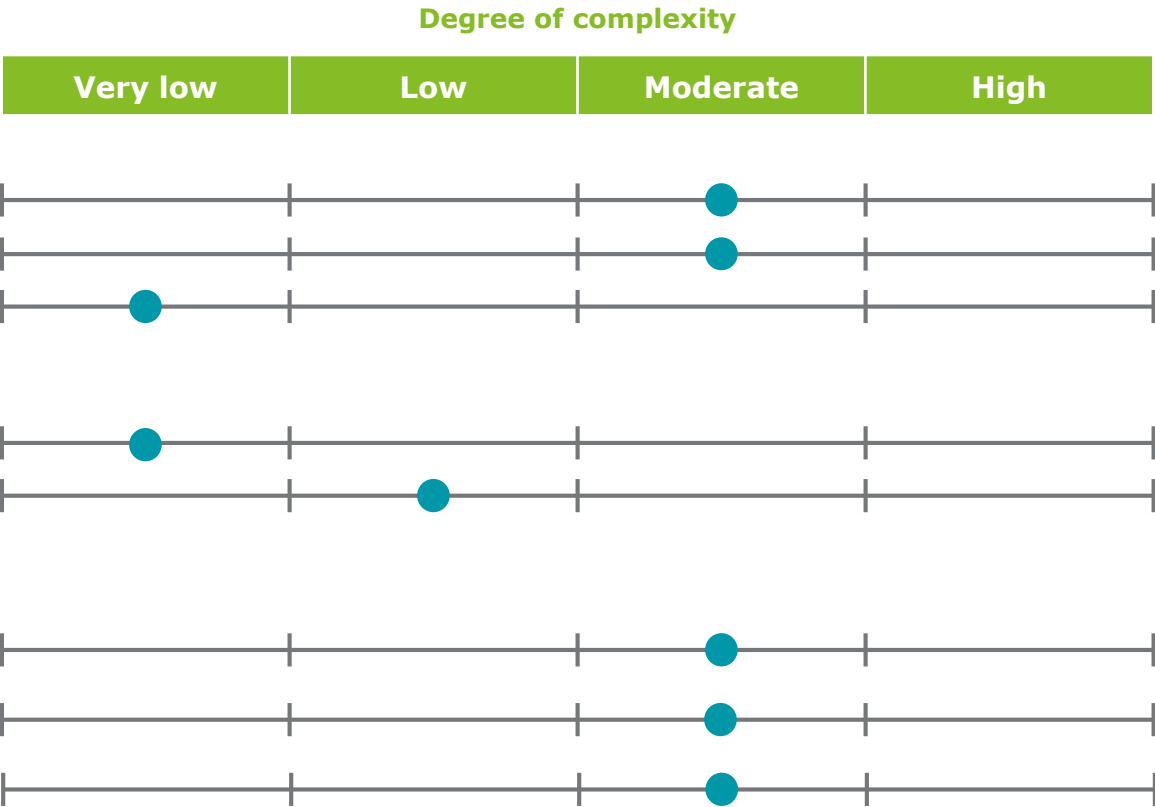
* Mandatory Auditing Standard Requirement

 Minimal/No management judgement involved

The CLLAS Audit Plan (cont'd)

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
Impact of COVID-19 on operations



The CLLAS Audit Plan (cont'd)

Addressing fraud risk

At the Audit Committee meeting on October 21, 2020, 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.

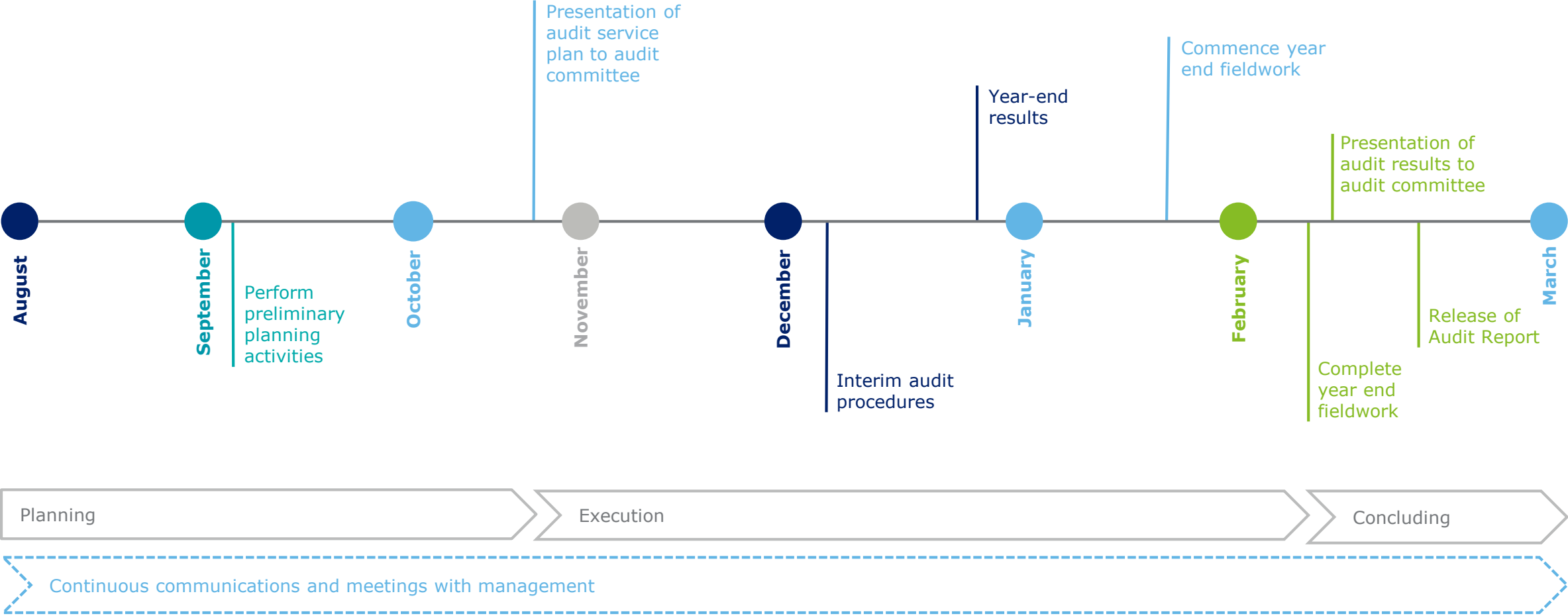
Our approach to address fraud risks:

- Focused testing on premiums written.
- Examine significant management judgements and accounting estimates for biases.
- Discussions with management and Audit Committee members.
- Testing of unusual journal entries identified.

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 (cont'd)

Audit timeline



COVID-19 Considerations



COVID-19

Deloitte's response

Deloitte has been closely monitoring and managing our response to the COVID-19 crisis since its inception in order to be able to respond as necessary. While our top priority is the health, safety and well-being of our people, clients and communities, we are continuing to work diligently to complete audits to required timetables. Below is a summary of our response.

Our response

- We have a crisis and business continuity management program in place which is certified against a leading global standard, ISO22301 (Societal Security — Business continuity management systems — Requirements). Our response includes a task force that specifically addresses the impacts and associated actions necessary to respond to a pandemic such as COVID-19. Deloitte is also working with advisors in the field of infectious diseases to inform our decisions.
- Our plan to address the pandemic involves efforts to maintain the continuity of essential business functions, and our current plans specifically address issues such as technology, communications, travel, resource allocation and alternate work sites.
- We are committed to doing our part to reduce the spread of the virus while taking the necessary steps to minimize disruption to the exceptional service you expect from us. As always, our top priority is the safety of our people, our clients and our communities. With regard to travel policies and well-being guidance to our personnel, our actions are informed by the latest guidance from health experts including the World Health Organization (WHO) and the Canadian Centers for Disease Control (CDC).
 - We have restricted all domestic and international travel until further notice.
 - At this time, all our professionals are required to work from home.
- We are in contact with regulators to discuss the impact of COVID-19. We are also coordinating with our Deloitte Member Firms to understand their regulatory environment so we can continue to execute global audits.
- Our planning process and activities will continue to evolve as we monitor information and assess potential impacts to our people and clients.



COVID-19 – Impact on our audit

Tailoring our approach



Tailored Inquiries

- Deloitte held a planning session with management in September to understand their views on the impacts of COVID-19 as part of our risk assessment process.
- As part of our planning procedures, Deloitte tailored our inquiries with management and expanded the nature thereof to identify areas in which COVID-19 may impact the financial reporting of the Society.



Substantive Testing

- We plan to perform certain focused inquiries on the effects of COVID-19 on overall financial reporting, including impact on significant accounting estimates, judgements and disclosures, and certain unusual and significant transactions.
- We will consider alternative methods to obtain audit evidence (scanned copies, electronic versions, video file-sharing, etc.)



Enhanced Professional Skepticism

Deloitte demonstrated enhanced professional skepticism in times of change through the following:

- Enhancing the Partner and Manager supervision of our teams to identify any area of heightened risk
- Deloitte has performed specific planning risk assessment procedures as a result of COVID-19 focused on areas with potential accounting implications and noted no additional risks. This risk assessment will be updated at year end.

Please see Appendix 5 for Deloitte's COVID-19 thought leadership materials

Revised CAS 540, Auditing Accounting Estimates and Related Disclosures



Revised CAS 540, Auditing accounting estimates and related disclosures

How will it impact the audit?

This revised auditing standard is effective for audits of financial statements for periods beginning on or after December 15, 2019.



Drivers for the Revised Standard

- Changes in financial reporting frameworks and standards include a greater focus on complex accounting estimates
- Recurring inspection findings by regulators around auditing accounting estimates highlights the importance of fostering professional skepticism
- Need to improve communication and transparency between auditors and those charged with governance/regulators on complex accounting estimates



Revised CAS 540, Auditing Accounting Estimates and Related Disclosures

What can you expect from your auditor?

Management

- Greater focus in assessing how management understands the nature, extent, risks and controls associated with accounting estimates
- Varying audit procedures to drive work efforts based on assessed risk levels including consideration to adopt a control reliance approach to auditing accounting estimates.
- More interaction with management's experts
- Specific written management representations

Communication with Those Charged with Governance

- Those charged with governance can expect to have enhanced dialogue on accounting estimates. This may include the auditor's views and assessment of:
 - significant qualitative aspects of the entity's accounting practices relating to accounting estimates and related disclosures;
 - indicators of management bias;
 - appropriateness of management's methods, assumptions and data used; and
 - significant deficiencies in internal controls around accounting estimates

Impact to the fiscal 2020 audit:

This is applicable to CLLAS given the significant accounting estimates related to the provision for unpaid claims and adjustment expenses.

Balance sheet <i>In thousands of Canadian \$</i>	December 31, 2019
Cash	3,785
Short term investments	12,343
Bonds, including accrued interest	6,015
Interest income due and accrued	21
Premiums receivable	1,254
Prepaid expenses	144
Deferred policy acquisition costs	134
Reinsurers' share of unearned premiums	3,627
Reinsurance receivable	351
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	59,504
Total assets	87,178
Accounts payable and accrued charges	331
Unearned premiums	4,619
Due to reinsurers	2,112
Provision for unpaid claims and adjustment expenses	66,388
Total liabilities	73,450
Total equity	13,728
Total liabilities and equity	87,178

Delivering Audit Quality



Delivering audit quality

Our commitment to you

Audit quality, in our view, extends beyond delivering the audit report. It also includes delivering meaningful insights to the clients we audit, and innovating how we execute our audits and manage our practice.



How we will deliver professional excellence

- **COVID-19** – We will remain alert to and focus our audit procedures on areas of emerging risk
- **Professional skepticism** – We will incorporate a more rigorous review of potential contradictory audit 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
- **Audit coordination** – We will continue to work with management to improve coordination of audit requests and we will hold regular status updates to keep management informed of our audit progress.



How we will innovate our audit approach

- **Process innovations** – continue to use Milestone and implement the standardized Deloitte Way Workflows in our audit
- **Deloitte Omnia** – continue to use our electronic data exchange platform, Deloitte Connect and data analytics tool, such as Spotlight to assist with analyzing journal entry data. As part of our data analytics work we use Power BI, a data visualization tool.



Evolving our quality management systems

We have elevated our definition of audit quality, explicitly highlighting our quality management systems as a critical element in achieving consistent high quality across all engagements. See [next slide](#) for more details.



Delivering audit quality (cont'd)

Evolving today with a vision of tomorrow

Our 2019 Audit Quality Report

Our 2019 Audit Quality report shares our evolving view on what constitutes audit quality.

We also provide our perspectives on the evolving audit quality landscape and how Deloitte is actively engaged in shaping the future of the profession.

We share highlights of our key audit quality results, and outline our current actions to achieve our audit quality objectives and enhance our quality management systems.

Our priorities for the future are consistent with the direction the Canadian Public Accountability Board (CPAB) has provided to continue advancing audit quality and strengthening quality management systems.

To learn more, click [here](#) to read our 2019 Audit Quality Report.

CPAB Annual Inspection Results

The 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.

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.

In March 2020, CPAB published their Annual Inspection Results, which summarized their final findings related to the inspection of engagement files and their evaluation of Firms' quality management systems.





Follow this [link](#) to read the 2019 CPAB Annual Inspections Results.



Advancing our Quality Management System



Progressing our quality management system is a continuous and iterative process, requiring us to implement new processes while enhancing our existing ones to stay responsive to constant change. Some examples include:

- 
COVID-19 - conducting on-going risk assessments, assessing impact on our portfolio of audit engagements and swiftly providing support to engagement teams as required.
- 
Workload review – on-going reviews of engagement leaders and EQCR workloads to ensure they have the capacity to provide the necessary attention to each engagement assignment.
- 
Consultations – driving the submission and completion of consultations earlier in the audit cycle and building up our subject matter proficiency in complex areas of audit focus.
- 
Quality measuring and monitoring processes – sharpening the design and effectiveness testing of our quality control processes.

For more information refer to our [2019 Audit Quality Report](#).

Appendices



Appendix 1 - Audit fees

Description	2018 (actual)	2019 (actual)	2020 (proposed)
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.

Appendix 2 – Engagement team



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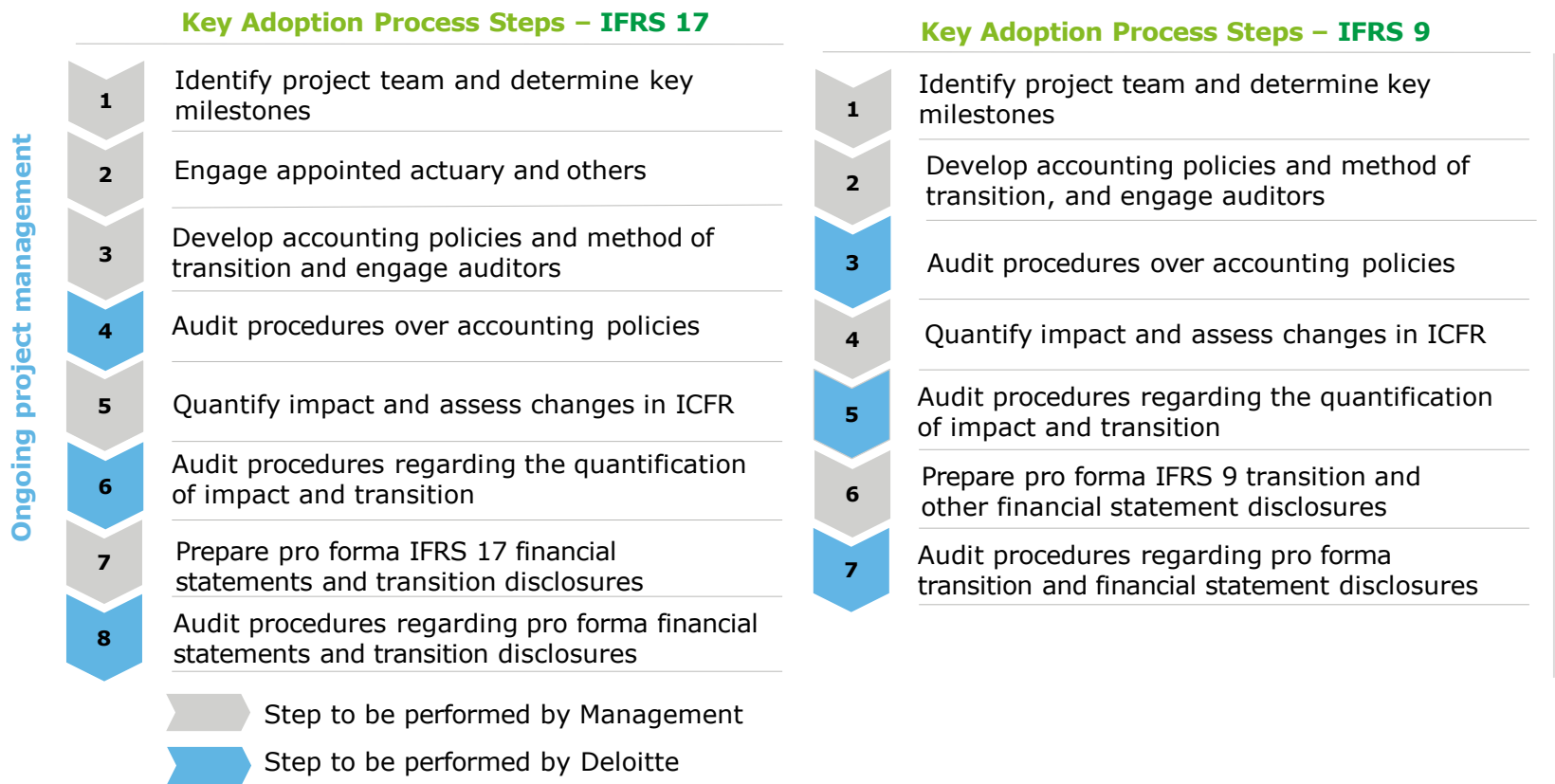


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Appendix 3 – Transition to IFRS 9 and IFRS 17

IFRS 9 *Financial Instruments* and IFRS 17 *Insurance Contracts* will be effective as of January 1, 2023 for all insurance entities. As we approach the adoption deadline, we will continue to hold discussions with management on their adoption plan and progress. We have summarized the key adoption process steps below, for both management and Deloitte:



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.	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
<p>An overview of the overall audit strategy, addressing:</p> <ol style="list-style-type: none"> Scope and timing of the audit Significant risks, including fraud risks 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) 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 audit Extent to which we plan to use the work of others when performing the financial statement audit 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 5 - COVID-19 Publications

Predicting the post-pandemic rebound

Deloitte's COVID-19 Economic Recovery and Consumer Sentiment Dashboards

The actions organizations take during the transitional recovery period can set the foundation for them to thrive and achieve sustained growth and performance after the pandemic is over. Leveraging artificial intelligence Deloitte has created a [COVID-19 Economic Recovery Dashboard](#) and [COVID-19 Consumer Sentiment Dashboard](#) to monitor the health, community/social activity, financial and economic indicators that will signal when the rebound stage has arrived.


Illustrative Dashboard Themes



Deloitte commercial traffic activity index


It is important that supply chains keep flowing for critical goods. Using data from telematics devices in over 2 million commercial vehicles, from commercial cars and vans to heavy duty trucks, we are able to identify changes in commercial transportation activity domestically and across borders. Increasing commercial transportation activity can be an indicator of industrial business activity returning to normal.

Powered by **Geotab** data. Last updated: 12-Apr-20



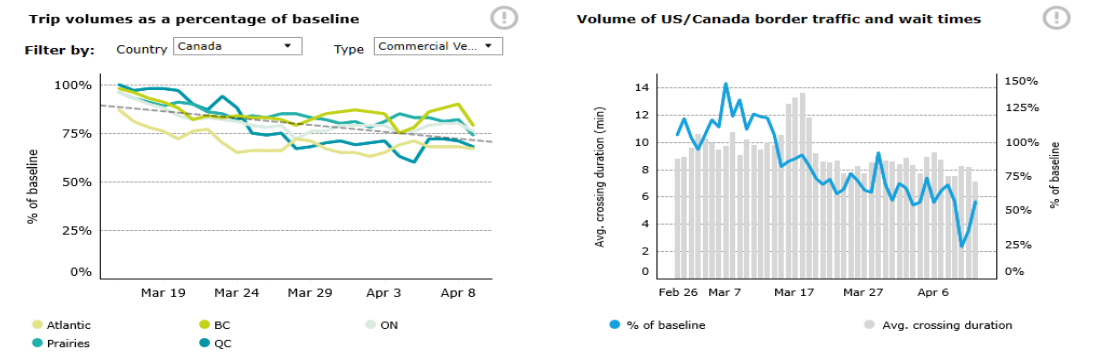
Change in trip volume


-24% Canada
-25% US



Change in Canada/US border crossing volume

-30%






Economic indicators


Economic indicators assess the wellbeing of an economy. There are indicators that lead changes in the economic cycle, such as hours worked and purchasing manager indexes. Given the unique nature of this economic cycle, inclusion of metrics on hard-hit sectors is appropriate even if they are not leading, like retail sales. There is often a delay in the publication of economic indicators, so they will be the weakest indicators for signaling a recovery. Nevertheless, they are important to monitor as they will indicate how strong the recovery is.

Powered by **Haver Analytics** data. Last updated: 12-Apr-20




Unemployment rate (R8)(monthly)

10.7%




Avg. weekly hours worked (avg. weekly for month)

29.2




Retail sales (excl. auto)(monthly)

-0.1% MoM



Existing home sales (units per month)

45,492




Manufacturing shipments (monthly)

-0.2% MoM

Appendix 5 - COVID-19 Publications (cont'd)

Embracing uncertainty

Our [Deloitte COVID-19 Information Centre](#) brings together Deloitte insights to help businesses manage and mitigate the risk. Select publications published on our website that may be of interest you include:

Resources	Description	Selected themes
	<p>No country, organization, executive team, or individual leader will be immune from COVID-19's impact. No strategy will survive fully intact. Scenario-thinking and sensing capabilities can strengthen the courage and conviction of executives to lead through these unique times.</p> <p>Please right click on the photo to access the document.</p>	<ul style="list-style-type: none">• In times such as these there are typical responses to uncertainty and recent business history provides many instances of giants toppled by misunderstandings of uncertainty.• It important to embrace uncertainty and this fundamental reframing widely described as the "next normal"• Scenario planning can help anticipate shifts in markets and input factors.



Appendix 6 – Engagement Letter

Engagement letter will be provided under separate cover.

