



## Canadian Lawyers Liability Assurance Society

Audit service plan for the year ending  
December 31, 2022



# 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, 2022. 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 2022 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. In addition, we will also issue a report on the Minimum Capital Test (MCT).

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, 2022 (the “Financial Statements”) and is not intended for any other purpose.

Yours truly,

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants

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# Executive summary

This is your roadmap to our 2022 audit service plan, within which you will find our detailed reporting on key matters of interest and planned work.

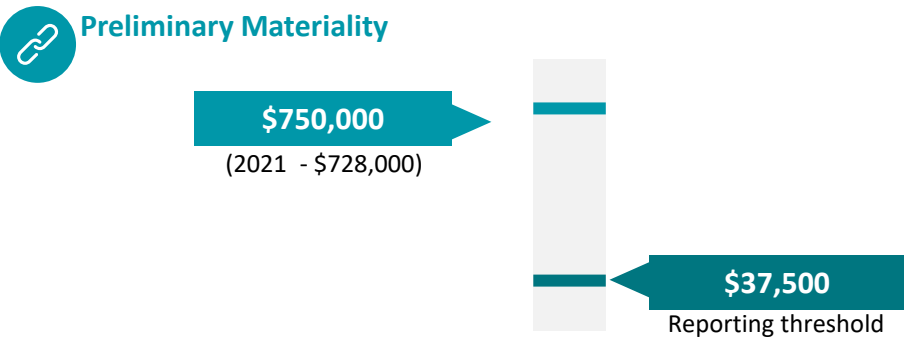
	Significant risks	Status
1	Management override of controls	...
2	Provision for unpaid claims and adjustment expense, gross and net of amounts recoverable from reinsurers (valuation)	...

 New from prior year

 Continued from prior year

 Removed from prior year

Matters of interest
<div><div><b>Use of Service Organizations</b> The Society uses RBC Investor &amp; Treasury Services for investments custody and record keeping. 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.</div><div><b>Involvement of Specialists</b> 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</div><div><b>Controls in the key business cycles</b> We will understand and test the design and implementation of relevant controls in the key business cycles.</div></div>



Accounting standards update
1 Update on transition to new accounting standards IFRS 17 Insurance Contracts and IFRS 9 Financial Instruments, see slide 12

Materiality is based on 1% of unpaid claims and adjustment expense, 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.



# 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		None		<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 9 for inquiries to be made of the Audit Committee</li> <li>Consider the potential for bias in judgments 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



Management judgment required



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



Yes



No



Spotlight – journal entry analytic tool

# The Society's Audit Plan (cont.)

## Significant risks – Management override of controls



### Audit risk

There is a **presumed risk of fraud related to management override of controls**.



### Why this is a risk?

Due to the **unpredictable way** in which management could override controls, it is considered a presumed risk of fraud under current auditing standards.



### Our planned audit response

We will use data analytics to identify journal entries that have **characteristics of audit interest ("COAI")**.

#### COAI include

- Entries containing key words of audit interest or unusual account names
- Entries posted with recurring digits
- Back-posted and pre-posted entries
- Large Income statement entries posted around period-end

## Specific procedures to address the risk of fraud



We will engage in periodic **fraud discussions** with certain members of senior management and others, including the Audit Committee.



We will test journal entries recorded in the general ledger and adjustments recorded directly to the financial statements for evidence of override of controls. We will use **Spotlight, our integrated analytics application**, a Deloitte proprietary tool, to identify journal entries that exhibit characteristics of audit interest.

We will consider the **potential for bias** in judgments and estimates, including performing retrospective analysis of significant accounting estimates.

We will evaluate the business rationale of unusual and significant transactions, including **significant related party transactions**, outside of the normal course of business.

# The Society's Audit Plan (cont.)

## Addressing fraud risks



### Our approach to address fraud risks

- Professional scepticism
- Unpredictability in testing
- Information produced by entity (“IPE”) testing – ensure to review accuracy and completeness of reports received from management
- Obtain an understanding of the business rationale for significant transactions
- Journal entry testing
- Review accounting estimates and judgments for biases
- Discussions with senior management and Audit Committee members about risk areas of fraud (fraudulent financial reporting, compensation plan, management judgments and estimates, misappropriation of assets and related parties' transactions)
- Careful consideration is required in assessing the impact of any past audit misstatements and the accounting for unusual transactions on reported revenue and net earnings, as these may impact management and employee compensation



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

## Fraud questionnaire – Audit Committee



### Questionnaire

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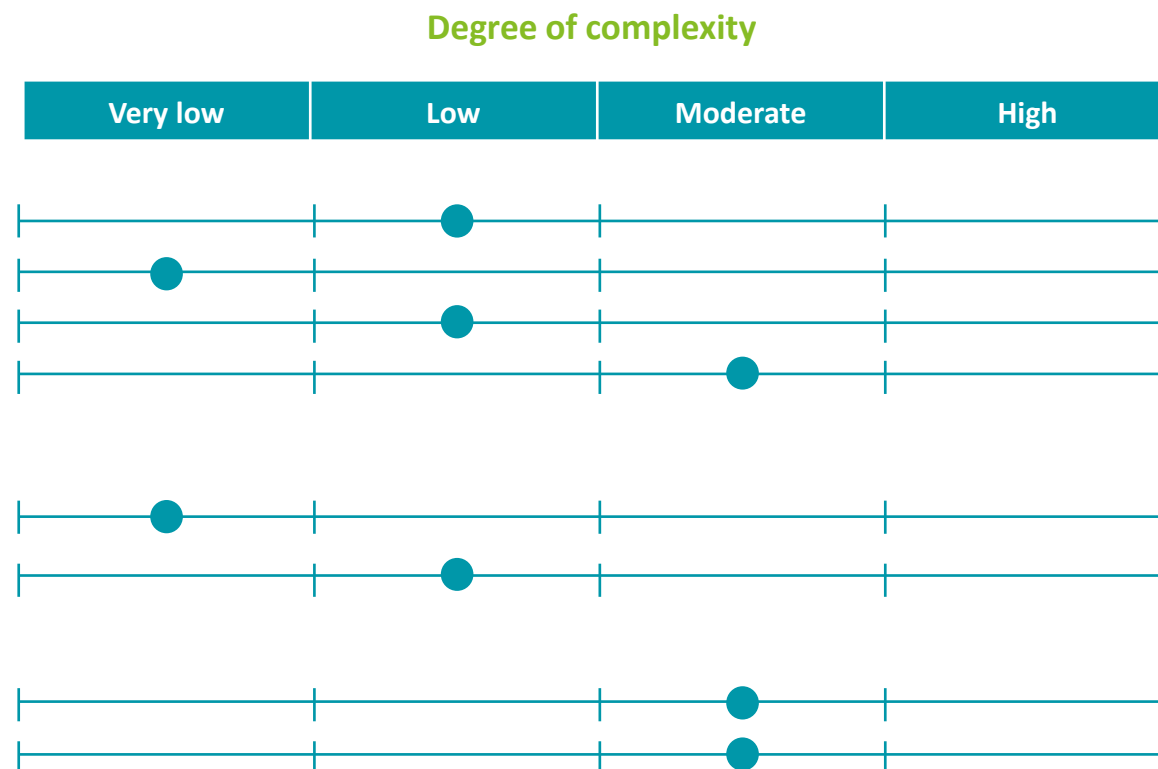
- What are your views about fraud risks within the Society?
- How do you exercise oversight over the Society's assessment of fraud risks and the establishment of controls to address fraud risks?
- Do you have knowledge of any actual, suspected, or alleged fraud affecting the Society?
- Are you aware 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 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?

# 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





# Transition to IFRS 17 and IFRS 9



# Transition to IFRS 17 and IFRS 9

## Timeline



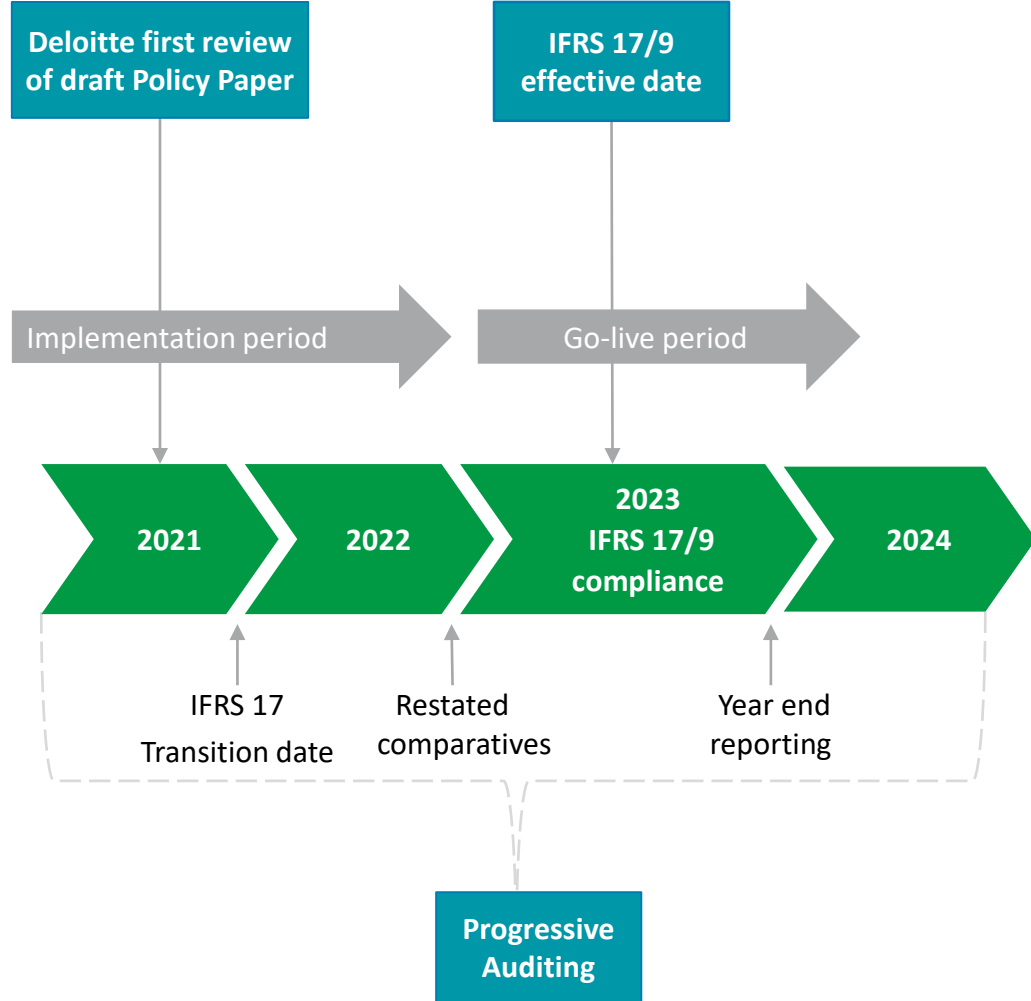
### Progressive Auditing of IFRS 17

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	2022	2023	Audit Hours
Review and comment on draft IFRS 17 Financial Statement presentations, accounting policy wordings and disclosures	In progress		30
Final review and comment on policy position papers, including audit documentation of assessment	In progress	✓	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>294</b>

### IFRS 17 and 9 Timeline





# ESG Reporting



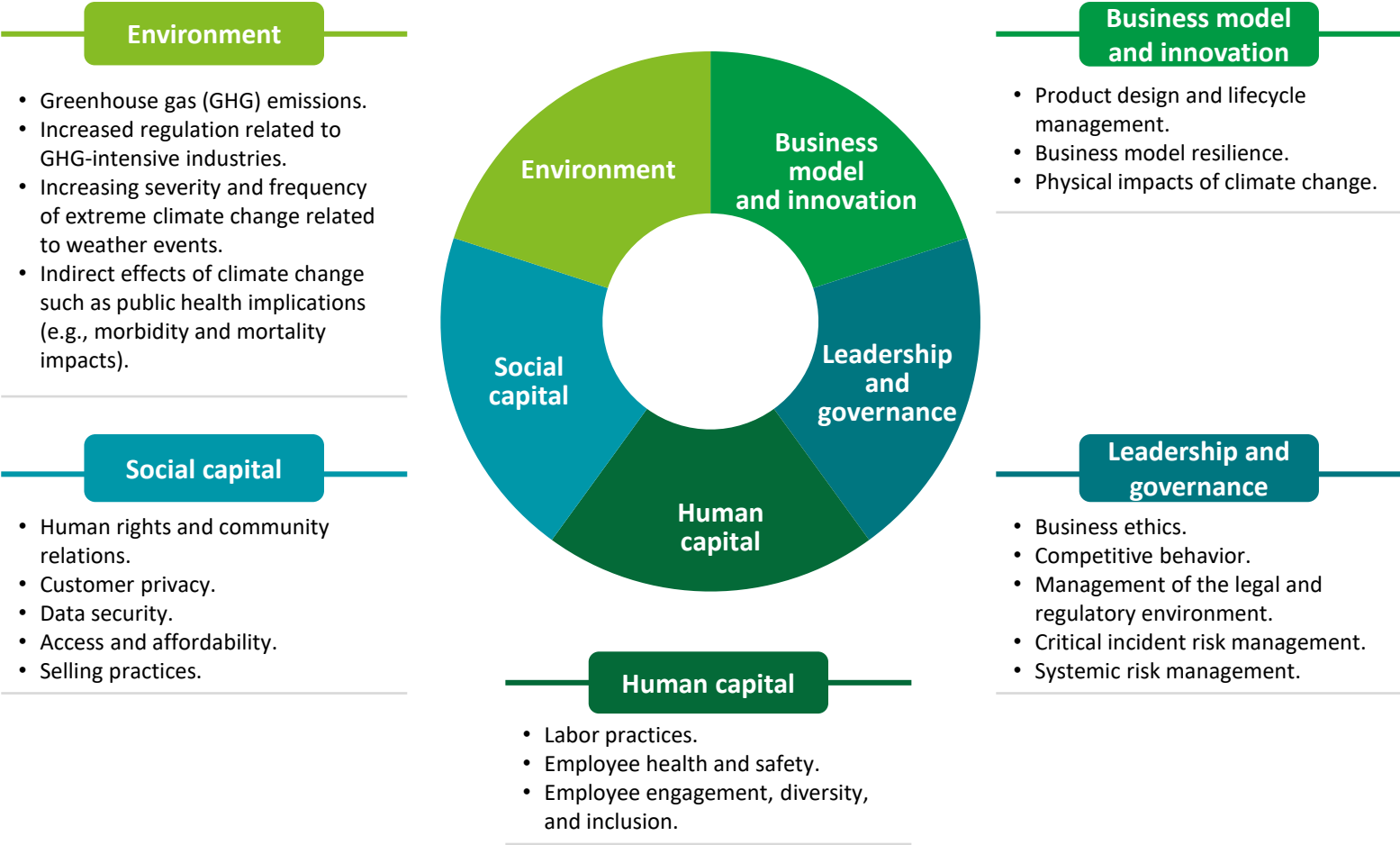


# ESG with an initial focus on climate change – On our radar for potential impact on the audit

## ESG and climate-related matters



ESG encompasses topics related to performance management and the impacts and dependencies of the business on society and the environment. Climate change represents multiple dimensions under the broader ESG umbrella.



**OSFI**

OSFI published, in May 2022, a draft version of a guideline on climate risk management. Disclosures requirement by OSFI for effective fiscal periods ending on or after October 1<sup>st</sup>, 2023.

**ISSB Exposure Drafts**

IFRS S1 – General disclosure standard for sustainability-related information  
IFRS S2 – Climate disclosures, largely aligned with the Task Force for Climate-Related Financial Disclosures (“TCFD”) recommendations, includes additional disclosure requirements (some of which are incorporated from other prominent international climate standard setters)  
Comments on the exposure drafts are due by July 29, 2022

**CSA Staff Notice 51-107**

Climate disclosures, largely aligned with the TCFD recommendations **except for:**

- Optionality of disclosing scope 2 and 3 greenhouse gas (“GHG”) emissions
- Optionality of disclosing scenario analysis to describe the climate resilience of the issuer’s strategy

Comment period concluded on February 17, 2022. Comment review is ongoing

**SEC Proposed Climate Rule**

Climate disclosures, largely aligned with the TCFD recommendations, **plus:**

- Additional disclosure requirements
- Additional proposed financial statement footnote disclosure
- Phased mandatory assurance of climate-related disclosures and controls

Comments due the later of 30 days after its publication in the Federal Register or May 20, 2022



## Climate Considerations

- 1 Establish or Refine Climate Governance**
  - Identify Board and Management oversight on climate-related matters and define clear roles, responsibilities, and charters.
- 2 Include the Right People**
  - Perform stakeholder engagement, including education on climate-related risks, data collection, and target setting.
- 3 Build Reporting Agility**
  - Enhance data quality, timeliness, automation, and relevance by standardizing governance and controls to prepare for assurance-ready disclosure.
- 4 Establish Controls over Climate-Related Data**
  - Assess the strength of processes and controls over climate-related data, leveraging existing financial reporting controls.
- 5 Think Strategically**
  - Understand disclosure requirements for climate targets, preparing for transparency on progress and transition plans.
- 6 Identify Climate Risks and Opportunities**
  - Identify physical and transition risks and opportunities (e.g., legal/policy, market, product, physical hazards) to business.
- 7 Be Transparent**
  - Prepare for accelerated reporting timelines, similar to financial reporting, and establish plan to obtain and/or increase the level of assurance.

The Office of the Superintendent of Financial Institutions (OSFI) issued a [draft version of Guideline B-15: Climate Risk Management](#). This guideline proposes a prudential framework that is more climate sensitive and recognizes the impact of climate change on managing risk. The draft Guideline sets the stage for OSFI's expectations of federally regulated financial institutions.



# Audit Quality



# Delivering Audit Quality

We are Quality



## Our 2021 Audit Quality Report

Quality is the foundation of our profession. What we do is important, and we endeavor to lead the conversation on audit quality and set the bar. To this end, our commitment to quality aims to deliver excellence at every level.

At Deloitte, there is no compromise when it comes to quality. We continue to evaluate, innovate, and develop and follow processes that put it above all else. We are defined by the high-quality audit and assurance services that we deliver—and by the fact that we deliver them with integrity.



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](#) read our **2021 Audit Quality Report**.



## Did you know



- 1 out of every 4.5 hrs. of our audit engagements is completed by a partner, director or manager.
- 1 out of every 9.7 hrs. of our audit engagements is completed by a specialist.

80% of public engagements in 2021 had required consultations to improve audit quality.



## 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.



# Audit Team, Fees, Communication and Timeline





# Engagement Team



## Team Leadership



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# Proposed Audit fees



Description	2021 (actual)	2022*	2023*	2024*
Audit of Financial Statements	\$95,300	\$102,400	\$105,470	\$108,630
Audit of MCT	\$11,400	\$12,250	\$12,600	\$13,000
<b>Total fees</b>	<b>\$106,700</b>	<b>\$114,650</b>	<b>\$118,070</b>	<b>\$121,630</b>
<b>IFRS 17 – First time adoption</b>	-	\$49,900-\$59,800 <sup>1</sup>	\$49,900-\$59,800 <sup>1</sup>	-
<b>Recurring IFRS 17 Costs (as presented last year)</b>	-	-	\$18,525-\$22,230	\$18,525-\$22,230

\*In line with our fee arrangement with the Society, our fees have been fixed for several prior years with a small annual inflationary adjustment in line with the Canadian inflation rate. The inflation rate in 2022 is at 7.5%. Our proposed fees above are adjusted to consider the current year inflation. The fees for 2023 and 2024 include an annual 3% inflationary adjustment similar to the inflationary adjustment in the past and will be adjusted for 2023 and 2024 if needed.

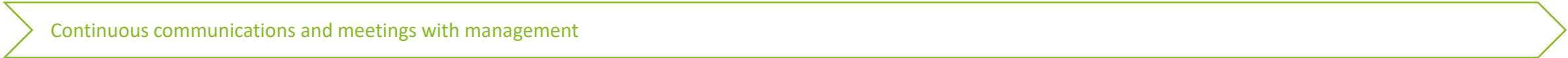
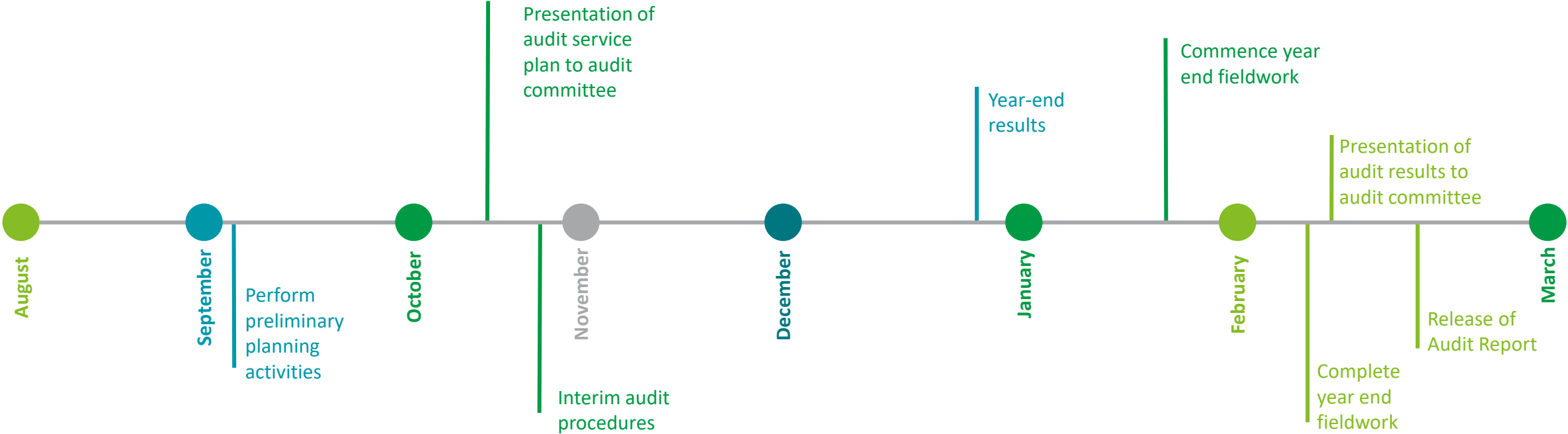
The fees above exclude the following:

- 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 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, the base fee will be adjusted with mutual consent and approval.

<sup>1</sup>Fees related to the transition to IFRS 17 which were presented last year (range between \$ 49,900-\$59,800) will be billed based on completion rate, expected to be 20%-25% in 2022 and the remaining in 2023.

# Audit Timeline Detail





# Appendices



# Appendix 1 – Required communications with Those Charged with Governance (“TCWG”)



Canadian GAAS require that we communicate to 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 Company’s relationships and transactions with related parties that are significant to the Company 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"> <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
<p>An overview of the overall audit strategy, addressing:</p> <ul style="list-style-type: none"> <li>a. Scope and timing of the audit;</li> <li>b. Significant risks, including fraud risks;</li> <li>c. 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>d. Extent to which we plan to use the work of the Company’s internal auditors, the Company’s personnel (in addition to internal auditors), and third parties working under the direction of management or the Audit Committee when performing the financial statements’ audit;</li> <li>e. Extent to which we plan to use the work of others when performing the financial statements’ audit;</li> <li>f. 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> </ul>	



# Appendix 1 – Required communications with Those Charged with Governance (cont.)



Canadian GAAS require that we communicate to TCWG on the following matters:

Required communication	Reference/comments
Additional group audit matters: <ul style="list-style-type: none"><li>a. An overview of the type of work to be performed on the financial information of the components;</li><li>b. An overview of the nature of the group engagement team's planned involvement in the work to be performed by the component auditors, if any, on the financial information of significant components.</li></ul>	Not application to the Society
All relationships between the entity and us that, in our professional judgment, may reasonably be thought to bear on our independence and related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.  A statement that, in our judgment, the engagement team and others in our firm and, when applicable, network firms have complied with relevant ethical requirements regarding independence.  Any breaches to our independence.	Independence letter in the audit results report at year-end

# Appendix 2 – 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 slides 8 and 9
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 slides 8 and 9
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 slides 8 and 9
<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



#### About Deloitte

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