



Canadian Lawyers Liability Assurance Society

Audit results for the year ended
December 31, 2023

Presented on February 22, 2024

To the Chairman and Members of the Audit Committee

Dear Audit Committee Members:

We are pleased to provide you with the results of the audit of the financial statements of Canadian Lawyers Liability Assurance Society (“the Society”) for the year ended December 31, 2023.

Enclosed are those results and insights from our audit that we believe would be of greatest interest to the Audit Committee and have summarized other required communications.

As agreed in our engagement letter dated October 31, 2023 we have performed an audit of the financial statements of the Society as of and for the year ended December 31, 2023, in accordance with Canadian generally accepted auditing standards (“GAAS”) as well as pages 20.10, 20.11 and 20.22 through 20.60 of the Core Financial Statement Return (PC1).

In addition, we have also audited the Minimum Capital Test which is contained in the P&C MCT/BAAT Quarterly Return (PC4) as at December 31, 2023, in accordance with the financial reporting provisions of Guideline A – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies. We expect to issue our audit reports thereon upon their approval by the Advisory Board and completion of the outstanding matters noted on slide 5 of this report.

Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee members at the meeting on October 31, 2023. The results of our audit are explained in further detail in this report.

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 Advisory Board to assist you in discharging your responsibilities with respect to the financial statements for the year ended December 31, 2023 (the “Financial Statements”) and is not intended for any other purpose.

We would like to express our appreciation for the cooperation we received from the officers and employees of the Society with whom we worked to discharge our responsibilities.

We look forward to discussing this report summarizing the outcome of our audit with you and answering any questions you may have.

Yours truly,

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Canadian Lawyers Liability Assurance Society Audit Results

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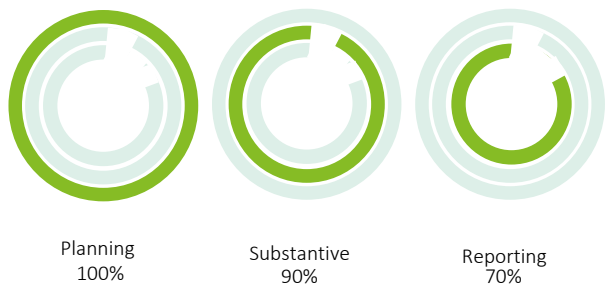
Executive summary

An abstract graphic on a dark green background. It features a network of nodes (circles) of various sizes connected by thin, light green lines. The nodes are arranged in a somewhat vertical column on the right side of the image, with some branching out to the left. The lines are thin and light green, creating a subtle pattern against the dark background.

Canadian Lawyers Liability Assurance Society

Executive Summary

AUDIT STATUS



As at the date of this report, we have substantially completed our audit procedures. Items remaining include customary closing procedures including:

- Completion of minor audit procedures
- subsequent events review;
- receipt of representation letter;
- completion of partner and quality assurance reviews; and
- review of final drafts of Financial Statements as well as associated Board approval.

SIGNIFICANT RISKS

Our audit plan identified certain areas that we refer to as significant risks. There has been no changes to these risks nor have any additional risks been identified since our previous communication. The results of our audit work on these risks are set out on pages 6 to 8.

	Status
1 Management override of controls	✓
2 Insurance contract liabilities	✓

Legend Completed, no issues noted.

MATERIALITY

In Canadian dollars	2023	2022
Materiality ^[1]	750,000	750,000
Clearly trivial threshold ^[2]	37,500	37,500

[1] Basis: 1% of insurance contract liabilities. Previously, materiality was determined on the basis of 1% of unpaid claims and adjustment expense.

[2] Calculated as 5% of materiality.

MAIN FINDINGS ARISING FROM OUR AUDIT

- 1 No corrected misstatements
- 2 No uncorrected misstatements*
- 3 No significant uncorrected disclosure misstatements*

** As at the date of our mailing, there are no uncorrected misstatements and no significant uncorrected disclosure misstatements.*

OTHER MATTERS OF INTEREST

Use of Service Organizations

The Society uses RBC Investor & Treasury Services for investments custody and record keeping. We obtained the service provider’s controls report and reviewed the results to assess whether we can place reliance on relevant controls, where appropriate. There were no findings identified.

IFRS 17 - Transition

We performed audit work on the transition impact on IFRS 17. There were no material misstatements identified.

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

COAI include

- Entries containing key words of audit interest
- Entries with a round number value or recurring digits
- Entries that are seldomly used
- Income statement entries posted immediately before period-end

Specific procedures to address the risk of fraud



We engaged in periodic **fraud discussions** with certain members of senior management and others, including the Board of Directors.



We tested journal entries recorded in the general ledger and adjustments recorded directly to the financial statements for evidence of override of controls. We used **Spotlight, our integrated analytics application**, a Deloitte proprietary tool, to identify journal entries that exhibit characteristics of audit interest. See next slide for the result of our audit work.



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

We evaluate the business rationale of unusual and significant transactions, including **significant related party transactions**, outside of the normal course of business. There have been no such transactions for 2023.

Significant Risks

Management override of controls (continued)

Analysis of journal entries – putting Spotlight to work

RISK

We have a responsibility to consider fraud in an audit of financial statements. Studies of major frauds have shown that many of the major financial reporting frauds were perpetrated by management overriding controls to record fraudulent journal entries and other adjustments.

AUDIT RESPONSE

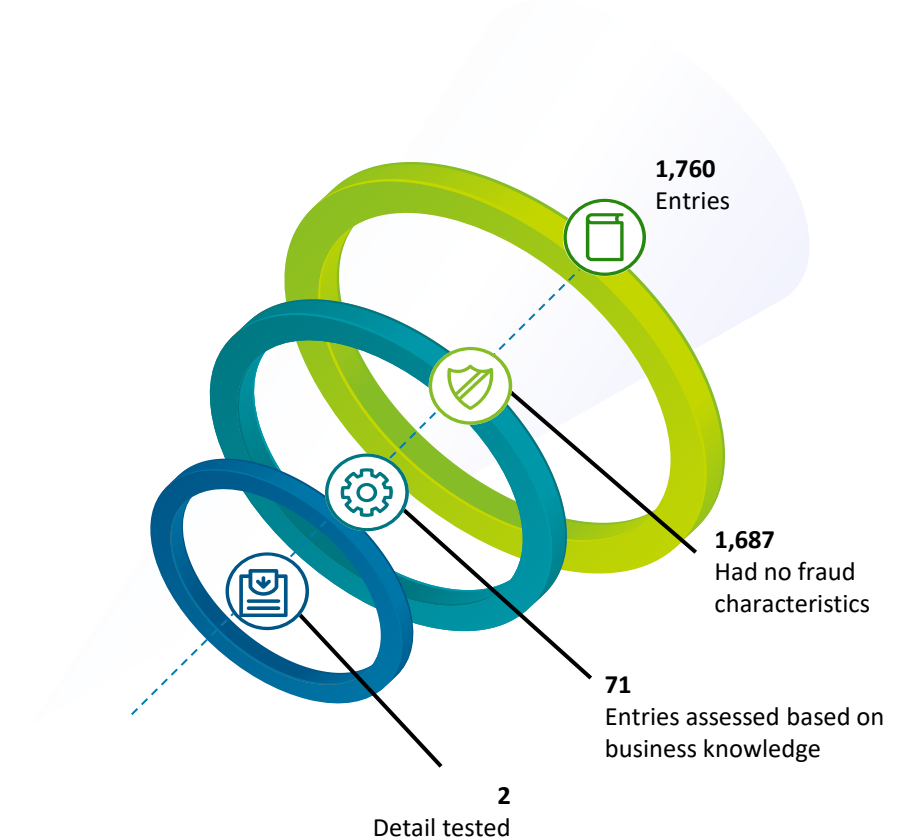
- The senior members of our team have significant experience in the audit of reporting issuers as well as functional technical skills and expertise;
- Increased professional skepticism among all engagement personnel through education regarding the engagement risks identified;
- Performing procedures specifically directed at identifying potential fraud, particularly fraudulent financial reporting as described on slide 8.

INNOVATIVE TOOLS USED

To address this requirement, we have used Deloitte's data interrogation tool, Spotlight, to assist in identifying journal entries that displayed characteristics of further audit interest.

RESULTS AND OBSERVATIONS

- Using our tool, we considered fraud characteristics for **71** journal entries of which **2** entries presented higher risk and we selected for detailed testing.
- No instances of a management override of controls have been identified in any of the entries profiled or tested.



Significant Risks

Insurance contract liabilities

SIGNIFICANT RISKS

Significant assumptions used in the calculation of insurance contract liability:

- Development factors
- Expected loss ratio
- Discount curve selections
- Risk adjustment margin.

RESPONSE

- Inquired with management about any changes in the methods and key assumptions used in the valuation:
 - Assessed the reasonableness of key assumptions and methodologies
 - Assessed the yield curve used and application of discounting
 - Challenge the ongoing appropriateness of significant assumptions
 - Tested the consistency of the risk adjustment
- Assessed and challenged the various methodology and key significant assumptions, including development factors (LDF), expected loss ratio selections (ELR). Further challenge the methodology behind the risk adjustment margins, and discount curve selections, with particular attention to the judgement around liquidity premium selection
- Assessed the implications on the balance sheet (insurance contract liabilities) as well as the income statement (insurance service and insurance finance expense), with particular focus on the appropriateness of the inclusion/exclusion of a loss component, as applicable
- Performed independent recalculations of insurance contract liabilities and independent analysis of insurance contract liabilities for specified material lines of business (as determined through the risk assessment process) and compared to those disclosed by the appointed actuary, focusing on key significant judgement areas such as loss development factors and loss ratio selections
- Examined and assessed the impact of any qualification or findings in the opinion of the appointed actuary
- Tested underlying data used in the valuation including claims reserves, claims paid and premium data
- Performed 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
- Performed audit procedures on the opening balance sheet as of January 1, 2022, for the transition of IFRS 17 and January 1, 2023, for the comparative figures

USE OF THE WORK OF SPECIALISTS

Deloitte actuarial specialists assessed and tested management estimates.

CONCLUSION

To date, the results of our audit procedures have been satisfactory. Update to be provided at the Audit Committee meeting.

Appendices

An abstract geometric pattern is located on the right side of the slide. It consists of various sized circles and lines of different colors, including shades of green, blue, and yellow. Some lines are straight, while others are curved, creating a complex, organic-looking structure. The pattern is set against a dark green background.

Appendix A - Audit Quality

Focused on Great

2023/2024 Audit Quality Report

Our 2023/2024 report highlights the evolution of how we create the conditions within our firm for every audit we complete, to be of the highest quality. We do not strive for “compliant”, we strive for “great” in our role as quality leaders. Our report highlights the evolution of a number of investments that we have made over the year and how we anticipate and embrace future change.

This report is intended to provoke discussion with our clients around both how we view and approach audit quality, how we deliver value to our clients and how we contribute to advancing the audit profession.



To learn more, click [here](#) to read our **2023/2024 Audit Quality Report**

Transparency Report

At Deloitte, we respect and embrace the trust and confidence placed by the public in our profession and our brand. For that reason, we have put in place guiding strategies for our firm that deliberately set the bar high in our expectations around professionalism, quality and leadership in serving our profession.

Our Transparency Report describes some of the principles, policies, standards and actions we have implemented to support our commitment to quality and professional excellence, including how our system of quality management supports the consistent performance of quality audits.



To learn more, click [here](#) to read our **Deloitte Canada Transparency Report**

CPAB Regulatory Oversight Report

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’s public reporting takes the form of an annual report on its views following the inspections of all Firms. CPAB issued an Interim Inspections Results Report in October 2023 and their 2022 Annual Inspection Results in March 2023. These reports provide a snapshot of themes and insights with respect to audit quality. In addition, following each inspection cycle, CPAB privately reports to each Firm on the results of its inspection.



Follow this [link](#) to read the **CPAB 2023 Interim Inspections Results Report**



Follow this [link](#) to read the **CPAB 2022 Annual Inspections Results**

Appendix B

Required communications with those charged with governance

Other matters required to be communicated to Those Charged with Governance (TCWG) under Canadian GAAS are the following:

Required communication	Reference/Comments
Any significant changes to the planned audit strategy/identified significant risks, and the reasons for such changes.	No changes to the planned audit strategy or significant risks identified.
Fraud or possible fraud identified through the audit process, unless prohibited by law or regulation.	Based on the procedures we performed as required by Canadian Auditing Standards (“CAS”) 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements, we are not aware of any illegal acts or fraudulent events for the year ended Dec 31, 2023.
Matters involving non-compliance with laws and regulations that come to our attention, unless prohibited by law or regulation.	No such matters noted.
Uncorrected and corrected misstatements, including disclosure misstatements.	None identified.
All significant deficiencies in internal control identified during the audit.	None identified.
Significant qualitative aspects of the Society's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Our views of any significant accounting practices that are not the most appropriate to the particular circumstances of the Society (including any bias in management’s judgments related to any of these matters).	Refer to page 15.

Appendix B

Required communications with those charged with governance (continued)

Required communication	Reference/Comments
Alternative treatments for accounting policies and practices that have been discussed with management including the ramifications of the use of such alternative disclosures and treatments and our preferred treatment.	None identified.
Any concerns regarding management’s anticipated application of accounting pronouncements that have been issued but are not yet effective, and that might have a significant effect on future financial reporting.	None identified.
Our views of significant accounting or auditing matters for which management consulted with other accountants and about which we have concerns.	None.
Significant matters discussed with management in connection with our appointment or retention, including the application of accounting principles and auditing standards.	None.
Our evaluation of whether the presentation of the financial statements and the related disclosures are in conformity with the applicable financial accounting framework, including consideration of the form, arrangement, and content of the financial statements.	We have read the financial statements and found them to be fairly stated and prepared in conformity with the required financial reporting frameworks.

Appendix B

Required communications with those charged with governance (continued)

Required communication	Reference/Comments
Any events or conditions identified that may cast significant doubt on the Company’s ability to continue as a going concern, including whether the events or conditions constitute a material uncertainty.	None identified.
Significant matters arising from the audit that were discussed with management and material written communications between management and us, including management representation letters.	None noted. A copy of the management representation letter will be provided separately.
Significant difficulties encountered during the audit, including disagreements with management	None.
Any other significant matters arising during the audit that, in the auditor's professional judgment, are relevant to the oversight of the financial reporting process, including complaints or concerns regarding accounting or auditing matters that have come to the auditor's attention during the audit and the results of the auditor's procedures regarding such matters.	None.

Appendix B

Required communications with those charged with governance (continued)

Required communication	Reference/Comments
<p>All relationships between the Society 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.</p> <p>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.</p> <p>Any breaches to our independence, including the action we have taken/propose to take.</p>	<p>No relationships with the Society or breaches to our independence identified. Deloitte has complied with relevant ethical requirements regarding independence. A copy of the independence letter will be provided separately.</p>
<p>Our evaluation of the company’s identification of, accounting for, and disclosure of its relationships with related parties. Our communication should also include other significant matters arising from the audit regarding the company's relationships and transactions with related parties including, but not limited to:</p> <ul style="list-style-type: none">a. The identification of related parties or relationships or transactions with related parties that were previously undisclosed to the auditor;b. The identification of significant related party transactions that have not been authorized or approved in accordance with the company's established policies or procedures;c. The identification of significant related party transactions for which exceptions to the company's established policies or procedures were granted;d. The inclusion of a statement in the financial statements that a transaction with a related party was conducted on terms equivalent to those prevailing in an arm's-length transaction and the evidence obtained by the auditor to support or contradict such an assertion; ande. The identification of significant related party transactions that appear to the auditor to lack a business purpose.	<p>No findings noted. Related party transactions are disclosed in the notes to the Financial Statements. We have not identified any related party transactions that were not in the normal course of operations and that involved significant judgments by management concerning measurement or disclosure.</p>

Appendix C – Material accounting policies, judgments and estimates

Audit assessment of material accounting policies, practices and accounting estimates

Material accounting policies and practices

The Society's material accounting policies have been included in Note 2 to the Financial Statements. No issues were noted with the material accounting policies and practices selected and applied by management, including the related financial statement disclosures.

Changes in accounting practices and policies and/or application of new and revised accounting standards

The Society has adopted the implementation of *IFRS 17 Insurance Contracts* on January 1, 2023 which replaces *IFRS 4 – Insurance Contracts* and *IFRS 9 – Financial Instruments* and has included disclosures of the restated comparative amounts at December 31, 2023 and presented a third statement of financial position as of January 1, 2022.

Significant accounting estimates

During the year ended December 31, 2023, management advised us that there were no significant changes in the basis for determining accounting estimates or in judgments relating to the application of the accounting policies.

Deloitte noted management has adequately disclosed the estimation uncertainty associated with accounting estimates in the financial statements.

Extract of the Society's 2023 Balance Sheet

Balance sheet <i>In thousands of Canadian \$</i>	December 31, 2023	December 31, 2022 (Restated)
Cash	4,619	2,872
Short term investments	8,297	11,590
Bonds, including accrued interest	7,082	5,677
Interest income due and accrued	34	25
Prepaid expenses	243	236
Reinsurance Contract assets:		
Asset for Incurred claims	71,209	72,018
Asset for remaining coverage	3,303	2,666
Total assets	94,787	95,086
Accounts payable and accrued charges	0	1,585
Insurance Contracts Liabilities:		
Liability for incurred claims	72,378	76,145
Liability for remaining coverage	7,748	3,932
Total liabilities	80,126	81,662
Total equity	14,662	13,425
Total liabilities and equity	94,787	95,086

Financial statements line items involving significant judgements and estimates

Reinsurance Contract assets

Insurance Contract Liabilities



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