

Canadian Lawyers Liability Assurance Society
Audit results for the year ended December 31, 2018
To be presented February 14, 2019



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February 11, 2019

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 submit this report on the status of our audit of Canadian Lawyers Liability Assurance Society ("the Society") for the 2018 fiscal year. This report summarizes the scope of our audit, our findings to date and reviews certain other matters that we believe to be of interest to you.

As agreed in our engagement letter dated November 7, 2018, we have performed an audit of the financial statements of Canadian Lawyers Liability Assurance Society as of and for the year ended December 31, 2018, in accordance with Canadian generally accepted auditing standards ("GAAS") and expect to issue our audit report thereon upon their approval by the Board of Directors and completion of the outstanding matters noted on page 3 of this report.

This report summarizes our findings during the audit to date. Our audit has been conducted in accordance with the audit plan that was presented to the Audit Committee members at the meeting on November 7, 2018.

The results of our audit are explained in further detail in this report.

This report is intended solely for the information and use of the Audit Committee, management and others within the Society and is not intended to be, and should not be, used by anyone other than these specified parties. Accordingly, we disclaim any responsibility to any other party who may rely on it.

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,

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants

Executive summary

Outstanding items

- Receipt of the final Appointed Actuary Report
- Receipt of signed management representation letter
- Performance of subsequent events procedures
- Completion of Engagement Quality Control Review

We plan to issue our audit opinions dated February 26, 2019 following completion of the above procedures and approval of the financial statements by the Advisory Board

Significant risks

Findings

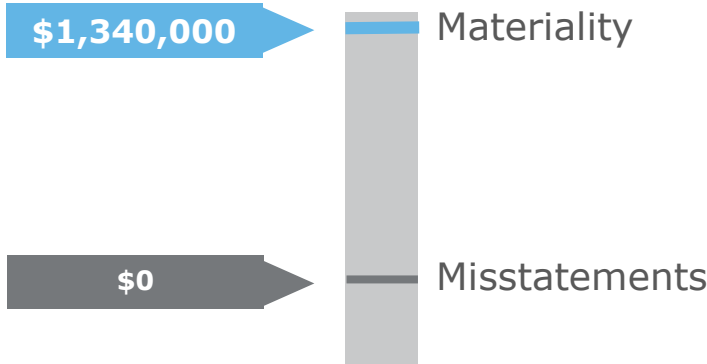
- 1 Provision for unpaid claims and adjustment expenses
- 2 Revenue recognition
- 3 Risk of management override of controls

Completed, no issues noted. Completed, insights identified. Completed, significant findings identified.

Changes from audit plan

- Materiality was determined on the basis of unpaid claims and adjustment expenses, adjusted for unusually large claims. Due to the payout of a large claim prior to year-end, materiality has decreased.
- Our audit approach was consistent with the audit plan presented to the audit committee on November 7, 2018

Misstatements



Other matters of interest

Subscriber withdrawals

Judgment is required in assessing appropriate timing of recognition and valuation as well as note disclosures

New IFRS Standards







Disclosure of deferral of IFRS 9 Financial Instruments and disclosure of new standard for insurance contracts, IFRS 17

Misstatements

- No corrected or uncorrected misstatements
- No disclosure misstatements

Matters of interest

Significant risks dashboard

Risk	Audit response consistent with plan	Status and findings	Our response	Our conclusion
Provision for unpaid claims and adjustment expenses			We completed our audit as planned, utilizing our actuarial specialists in the execution of our work. This included assessing the reasonableness of key assumptions and methodologies, testing the underlying data and independent recomputations of the actuarial reserves.	The results of audit procedures were satisfactory
Revenue recognition			Assurance standards include the presumption of a fraud risk involving improper revenue recognition. We completed our audit as planned, agreeing all premiums recorded to supporting documentation, recomputing unearned premiums and obtaining confirmation from CLLAS members.	The results of audit procedures were satisfactory
Risk of management override of controls			Assurance standards include the presumption of a significant risk of management override of controls. We completed our audit as planned, testing the appropriateness of large or unusual journal entries using data analytical tools to identify journal entries of audit interest and examining accounting estimates for bias.	The results of audit procedures were satisfactory

Legend

-  Completed. Results of procedures satisfactory.
-  Completed. Insights identified.
-  Completed. Significant findings identified.
-  In progress.

Appendices



Appendix 1 – 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
Any significant changes to the planned audit strategy / identified significant risks, and the reasons for such changes.	There have been no changes compared to the audit plan.
Fraud or possible fraud identified through the audit process, unless prohibited by law or regulation.	None noted.
Matters involving non-compliance with laws and regulations that come to our attention, unless prohibited by law or regulation.	None noted.
Uncorrected and corrected misstatements, including disclosure misstatements.	None noted.
All significant deficiencies in internal control identified during the audit.	No deficiencies to report.
<p>A draft copy of the auditor's report(s) we expect to issue including circumstances that affect the form and content of the auditor's report, if any, including:</p> <ul style="list-style-type: none"> • Expected modifications to our opinion(s), including the circumstances that led to the expected modification and the wording of the modification. • Inclusion of an Emphasis of Matter/Other Matter paragraph, and the related wording • A material uncertainty related to going concern is reported • An uncorrected material misstatement of the other information is reported 	See Appendix 3. We expect to issue unmodified auditor's reports.
Significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.	See Appendix 2.
Our views of any significant accounting practices that are not the most appropriate to the particular circumstances of the entity (including any bias in management's judgments related to any of these matters).	
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.	In our judgment, the significant accounting practices and policies, selected and applied by management are, in all material respects, acceptable under IFRS and are appropriate to the particular circumstances of the Society.

Appendix 1 – Required communications with Those Charged with Governance (cont’d)

Required communication	Reference/Comments
Significant matters arising from the audit that were discussed with management and material written communications between management and us, including management representation letters.	A draft version of the management representation letter to be signed by management has been provided separately.
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.	See Appendix 4.
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, including the action we have taken / propose to take.	

Appendix 2 – Significant accounting policies, judgments and estimates

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

Significant accounting policies and practices

The Society's significant accounting policies have been included in Note 3 to the Financial Statements. No issues were noted with the significant accounting policies and practices selected and applied by management, including the related financial statement disclosures.

The adoption of IFRS 15 *Revenue* had no impact on the Financial Statements. The Society has disclosed the deferral of *IFRS 9 Financial Instruments* and has included disclosure of the future accounting changes for Insurance Contracts and Financial Instruments.

Significant accounting estimates

During the year ended December 31, 2018, 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.

Balance sheet <i>In thousands of Canadian \$</i>	December 31, 2018	December 31, 2017
Cash	5,081	3,140
Short term investments	7,129	11,745
Bonds, including accrued interest	5,911	5,092
Interest income due and accrued	21	19
Premiums receivable	1,636	1,783
Prepaid expenses	141	140
Deferred policy acquisition costs	106	103
Reinsurers' share of unearned premiums	2,736	2,541
Reinsurance receivable	2,996	618
Provision for unpaid claims and adjustment expenses recoverable from reinsurers	87,941	96,568
Total assets	113,698	121,749
Accounts payable and accrued charges	335	514
Unearned premiums	3,665	3,540
Due to reinsurers	1,935	1,649
Provision for unpaid claims and adjustment expenses	95,430	104,499
Total liabilities	101,365	110,202
Total equity	12,333	11,547
Total liabilities and equity	113,698	121,749

Bonds are composed of bonds issued or guaranteed by the Government of Canada, any province in Canada or Canadian corporations having a rating of A or better. There are no Bonds that require the use of unobservable inputs to determine fair value. There were no impairments or impairment concerns noted during 2018.

Provision for unpaid claims and adjustment expenses recoverable from reinsurers include balances due from reinsurance companies for paid and unpaid losses. Amounts recoverable from reinsurers are estimated and recognized in a manner consistent with the reserve for losses associated with the related reinsurance contract. The Society reflects reinsurance balances on a gross basis in the statement of financial position to reflect the credit risk related to reinsurance. No concerns were noted with respect to the credit standing of the Society's reinsurance counterparties.

Provision for unpaid claims and adjustment expenses is calculated in accordance with accepted actuarial practice in Canada and involves estimates of loss activity that are, by necessity, subject to uncertainty and are derived from a wide range of possible outcomes. They have been estimated in a manner materially consistent with the approach followed in the prior year. Assumption changes increased net liabilities by \$517,738 and the change in the discount rate and PfAD decreased net liabilities by \$77,000. Management's estimate of these actuarial liabilities is the most significant area of measurement uncertainty which utilizes complex models and significant management judgement for assumptions.

Subscriber withdrawals occur periodically and judgment is involved in determining the appropriate timing of recognition and valuation of amounts and appropriate note disclosures

Appendix 3 – Draft version of our Auditor’s Reports

Draft Auditor’s Report on CLLAS Financial Statements

Independent Auditor’s Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society

Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the “Society”), which comprise the statements of financial position as at December 31, 2018, and the statements of comprehensive income (loss), changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario

February [.] , 2019

Appendix 3 – Draft version of our Auditor’s Reports

Draft Auditor’s Report on CLLAS Minimum Capital Return

Independent Auditor’s Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society, and the Provincial Superintendents of Financial Institutions/Insurance

Opinion

We have audited the Minimum Capital Test on page 30.61 of the P&C Quarterly Return of Canadian Lawyers Liability Assurance Society (the “Society”) as at December 31, 2018 (the “MCT”).

In our opinion, the accompanying MCT of the Society as at December 31, 2018 is prepared, in all material respects, in accordance with the financial reporting provisions of Guideline A – Minimum Capital Test for Federally Regulated Property and Casualty Insurance Companies effective January 1, 2018 (the “Guideline”) prescribed by the Office of the Superintendent of Financial Institutions Canada (“OSFI”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the MCT section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the MCT in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting

We draw attention to the fact that the MCT has been prepared in accordance with the financial reporting provisions of the Guideline. The MCT is prepared to assist the Society to meet the requirements of the Provincial Superintendents of Financial Institutions/Insurance. As a result, the MCT may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Unaudited Information

We have not audited the schedules and exhibits except for page 30.61 of the Society’s P&C Quarterly Return. Accordingly, this auditor’s report and our opinion do not cover the schedules and exhibits on the other pages of the Society’s P&C Quarterly Return.

Other Matter

We issued a separate auditor’s report dated February 26, 2019 on the financial statements on pages 20.10 through 20.54 of the Society’s P&C Quarterly Return.

Responsibilities of Management and Those Charged with Governance for the MCT Return

Management is responsible for the preparation of the MCT Return in accordance with the financial reporting provisions of the Guideline, and for such internal control as management determines is necessary to enable the preparation of the MCT Return that is free from material misstatement, whether due to fraud or error.

In preparing the MCT, management is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society’s financial reporting process.

Auditor’s Responsibilities for the Audit of the MCT Return

Our objectives are to obtain reasonable assurance about whether the MCT is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this MCT.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the MCT, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the MCT or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Society to cease to continue as a going concern.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario

February [.], 2019

Appendix 3 – Draft version of our Auditor’s Reports

Draft Auditor’s Report on CLLAS P&C Return

Independent Auditor’s Report

To the Advisory Board of Canadian Lawyers Liability Assurance Society, and the Provincial Superintendents of Financial Institutions/Insurance

Opinion

We have audited the financial statements of Canadian Lawyers Liability Assurance Society (the “Society”), which comprise the statements of assets and liabilities and equity at December 31, 2018, and the statements of income, retained earnings, comprehensive income (loss) and accumulated other comprehensive income (loss), reserves, changes in equity and cash flows for the year then ended on pages 20.10 through 20.54 of the Society’s P&C Quarterly Return and pages 20.52 and 20.60 of the Society’s P&C Annual Supplement, which includes the notes to the financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Society as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Society in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Unaudited Information

We have not audited the schedules and exhibits except for those on pages 20.10 through 20.54 of the Society’s P&C Quarterly Return and those on pages 20.52 and 20.60 of the Society’s P&C Annual Supplement. Accordingly, this auditor’s report and our opinion do not cover the schedules and exhibits on the other pages of the Society’s P&C Quarterly Return and P&C Annual Supplement.

Other Matter

We issued a separate auditor’s report dated February 26, 2019 on the MCT on page 30.61 of the Society’s P&C Quarterly Return.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Society’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Society or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Society’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Society’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Society’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Society to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

(To be signed Deloitte LLP)

Chartered Professional Accountants

Licensed Public Accountants

Toronto, Ontario

February [..], 2019

Appendix 4 – Independence

February 11, 2019

Private and confidential

To the Chairman and Members of the
Audit Committee of Canadian Lawyers Liability Assurance Society

Dear Members:

We have been engaged to perform an audit of the financial statements of Canadian Lawyers Liability Assurance Society (the “Society”) as of and for the year ended December 31, 2018 and as contained on pages 20.10 to 20.60 of the Society’s P&C Annual Return in accordance with Canadian generally accepted auditing standards.

You have requested that we communicate in writing with you regarding our compliance with relevant ethical requirements regarding independence as well as all relationships and other matters between the Society, our Firm and network firms that, in our professional judgment, may reasonably be thought to bear on our independence. You have also requested us to communicate the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

We are not aware of any relationships between the Deloitte Entities and the Society and its affiliates, or persons in financial reporting oversight roles at the Society and its affiliates, that under the Rules of Professional Conduct of the applicable Chartered Professional Accountants provincial/territorial regulator/ordre of Ontario may reasonably be thought to bear on independence, that have occurred from February 16, 2018 to February 11, 2019.

The total fees charged to the Society for audit services were \$91,570 during the period covered by the financial statements.

We hereby confirm that we are independent with respect to the Society in accordance with the Rules of Professional Conduct of the applicable Chartered Professional Accountants provincial/territorial regulator/ordre of Ontario as of February 11, 2019.

This letter is intended solely for the information and use of the audit committee, management, and others within the Society and is not intended to be and should not be used for any other purposes.

We look forward to discussing with you the matters addressed in this letter at our upcoming meeting on February 14, 2019.

Chartered Professional Accountants
Licensed Public Accountants