

Internal Control Review Management Plan Executive Summary

March 22, 2017

Introduction

To help rebuild and strengthen its governance structure and related operating processes, CKHA adopted the 2013 COSO Framework to assess key controls, document management controls and identify areas for improvement.

The adoption of COSO is intended to provide senior management with an understanding of the effectiveness of the design of existing controls and processes; critical gaps and areas for improvement in CKHA's control environment; and the extent to which established policies and procedures may have been circumvented over the past year.

Internal control is a process designed to provide reasonable assurance of the achievement of objectives relating to :

1. Effectiveness and efficiency of operations
2. Reliability of financial reporting
3. Compliance with applicable laws and regulations

Overview

CKHA engaged KPMG to conduct this review of internal controls in January 2017 and the final report was received March 1, 2017. This report was reviewed by the Board Finance and Audit Committee March 8, 2017.

This review considered the practices in place pre-transition (before hospital placed under provincial supervision) and post-transition (hospital under provincial supervision). A number of critical gaps were identified pre-transition:

- * Tone at the top to demonstrate and reinforce desired behaviours and values.
- * Internal controls related to the review and approval of expense reimbursements and review of financial reports.
- * Availability of an independent and anonymous whistleblower program to support reporting of suspected improprieties.
- * Transparency and due diligence in reporting to support management's decision-making.
- * Internal communications, collaboration, and engagement of management and employees.
- * Engagement of Finance and IT personnel in planning of major projects and general project management approaches.
- * Accountability and reporting among senior management and to the Board on actual performance results and forecasting on cash flow at all levels.

COSO Assessment

The results of the assessment are summarized into four categories:

- **Green Light** - Sound operational management practices were found to be in place that address most elements of the related COSO principle.
- **Yellow Light** - Minor gaps and opportunities to further strengthen and evolve current practices in the spirit of continuous improvement exist.
- **Orange Light** - Priority gaps were identified and opportunities to further strengthen practices exist that require the attention of management.
- **Red Light** - Critical gaps were identified that require prompt management attention.

Consolidated Findings

Selected COSO Principles

Element	Principle	Results (Pre-Transition)	Results (Feb 2017)
Control Environment	Exercises oversight responsibility	✘	!
	Establishes structure, authority and responsibility	✘	!
	Demonstrates commitment to competence	✘	–
	Enforces accountability	✘	–
Risk Assessment	Identifies and analyzes risk	✘	!
	Assesses fraud risk	✘	!
	Identifies and analyzes significant change	!	–
Control Activities	Selects and develops control activities	!	–
	Selects and develops general controls over technology	–	–
	Deploys through policies and procedures	–	–
Information and Communication	Uses relevant information	!	–
	Communicates internally	✘	✓
	Communicates externally	✘	–
Monitoring Activities	Conducts on-going and/or separate evaluations	✘	✓
	Evaluates and communicates deficiencies	✘	–

COSO Assessment

The consolidated results of the current state assessment by COSO principle as of February 2017 are illustrated on page 5 of this document

KPMG was engaged solely to conduct a current state assessment through this review.

Information obtained over the course of the review demonstrated a number of improvements that have been implemented over the past six months across many COSO principles and provided information and context on the previous state of CKHA's entity-level controls.

Consolidated ratings provided in the "Results (Pre-Transition)" column on page 5 of this document are based solely on the information obtained from interviews with management and documentation review regarding the changes that have occurred over the past six months, and were not subject to additional verification procedures.

COSO Assessment Results

- CKHA has made progress over the past six months to strengthen internal control:
 - All critical gaps were eliminated
 - Sound practices were identified
 - A number of principles were classified as minor gaps
- Notwithstanding the progress to date, CKHA recognizes the importance of addressing the recommendations in the report and have developed an action plan that is summarized in the following slides

Priority Gaps Recommendations and Status

Control Environment

PRIORITY GAPS	Status	Target Date
Review and strengthen key corporate policies for completeness of content, including Code of Conduct, Conflict of Interest, Disclosure, Procurement, Capital Expenditures, Delegations of Authority and IT.	A schedule will be developed to review key corporate policies with the objective of ensuring that policies reflect contemporary control and compliance standards. A standard review frequency will be established for key corporate policies.	01/July/2017
Implement annual acknowledgement of the Code of Conduct and other key corporate policies, such as IT information security, by all employees and directors.	Phase 1 will include all leaders (administrative and medical) Phase 2 will include board of directors Phase 3 will include all staff	01/July/2017 When Directors appointed 01/July/2018
Strengthen Board reporting through standard agenda items, progress reports on major projects, and documentation of approvals and key decisions.	Board agenda includes standard items, progress reports on major projects included in the board and board committee material, and approvals/key decisions are documented.	Completed

Control Environment

PRIORITY GAPS	Status	Target Date
Formalize and implement succession planning and talent development plans.	Organizational development and leadership development has been identified as a priority. The new senior management will prepare a succession plan, and a talent development plan.	01/October/2017
Strengthen CEO, COS, and management performance assessment process, including documentation and assessment of performance against strategic goals and financial performance.	As part of the governance renewal process currently underway the plan is to implement a robust and comprehensive performance plan and schedule. A process similar to the board process will be implemented for senior management.	When Directors appointed

Risk Assessment

PRIORITY GAPS	Status	Target Date
<p>Formalize departmental objective setting to align with overall strategy.</p> <p>Formalize key performance indicators to enable consistent tracking of progress against objectives.</p>	<p>The strategic plan will be updated to reflect environmental and regulatory changes and to provide the organization with a coherent direction that covers financial stewardship, compliance and control, quality and safe patient care, healthy workplace, etc. This will facilitate the formalization of department/program objectives and the determination of performance indicators.</p>	<p>01/December/2017</p>
<p>Adopt and implement a formal enterprise risk management.</p>	<p>KPMG has been engaged to assist CKHA in developing a formal risk management plan.</p>	<p>01/August/2017</p>

Control Activities/Monitoring

PRIORITY GAPS	Status	Target Date
Strengthen project management practices, including use of standard business cases and involvement of key support functions in project planning.	A project management office has been set up to support the recovery plan, and this will be continue past the development of the recovery plan to support implementation, business case development, and project planning	Ongoing

Information and Communication

PRIORITY GAPS	Status	Target Date
Formalize external communication plan and strategy.	A communication plan and strategy will be prepared based on the work over the past few months.	01/July/2017

Minor Gaps
and
Opportunities for Improvement

Recommendations and Status

Opportunities for Improvement

Minor Gaps & Opportunities for Improvement	Status	Target Date
Conduct periodic reviews of the completeness and appropriateness of corporate wide policies, including Finance and HR policies/procedures.	A review frequency and schedule will be established for the review of corporate wide policies.	01/June/2018
Develop and enhance onboarding materials for new Board directors.	This is underway as part to the governance renewal process.	When Directors appointed
Develop and leverage Board skills and competency matrices to guide Board recruitment and development activities.	This is underway as part to the governance renewal process.	When Directors appointed
Review dual reporting roles to further clarify accountabilities and improve flow of communication.	The number of positions with dual reporting relationships has been substantially reduced and there is greater clarity in the remaining positions regarding roles, responsibilities, and reporting relationships	Completed.

Opportunities for Improvement

Minor Gaps & Opportunities for Improvement	Status	Target Date
Streamline and simplify templates, including actual to budget reporting and performance appraisals.	Work is underway to streamline and simplify.	01/September/2017
Centrally manage a comprehensive list of IT systems, including cloud-based applications.	Work is underway to inventory all systems and cloud based applications, and to establish a mechanism and process to achieve greater control.	01/November/2017
Formalize reporting of control deficiencies and violations of key policies to oversight bodies.	Control deficiencies and policy violations are reported to senior management and the appropriate board committee.	Completed