

## **MINUTES OF THE AUDIT COMMITTEE**

December 2, 2021 at HTM

Attendees: John Kernaghan, Van Darling, Jeanette Cyr-Guerreiro, Brian Kehoe, Richard Barrett, Allan Sheppard, Dave Rutherford, Alec Harmer, Donna White

### **Audit Plan**

Jeanette and Brian provided us with a summary review of the audit plan. This year Jeanette, Bradley Limin and a new audit team member Scott Fleming attended our office in November to perform the interim audit testing. Donna has provided the Broker Bill accounts receivable balances as of November 30<sup>th</sup> and they will be sending out the confirmation letters this week. The audit team will be back in our office in January to complete the in house testing.

Wilkinson's approach to the audit is similar to past years and the objective of the audit is to enable them to express an opinion on whether the financial statements are in accordance with International Financial Reporting Standards. The audit does not relieve management or the Audit Committee of its responsibilities.

Materiality is based on 1% of the projected premium income at year-end and the range this year is \$350,000 to \$370,000 compared to last year's materiality of \$340,000. Brian explained that another option to determine materiality is to use a percentage of the bottom line. However, in our industry the bottom line has large fluctuations so he feels that a percentage of the premium income works best for the insurance industry for consistency.

### **Pearson Insurance Purchase**

If the purchase agreement has been signed prior to the issuing of the financial statements, we will be required to disclose the purchase in the notes to the financial statement as a HTM commitment. We will need to appoint officers for the Pearson corporation board, and Brian suggested we get some legal advice from Steve Grant.

Brian did mention that if there are undisclosed liabilities that come up after closing, we will have to review what is found, however, we will have options for redress if they were pre-acquisition.

Brian has provided the timeline for complete dissolution in a memo dated Dec 3, 2021 based on purchase July 1 2022.

### **June 30, 2022**

Pearson's are responsible for accounting and tax compliance up to June 30, 2022.

### **December 31, 2022**

At the end of 2022, we will be required to prepare 3 financial statements; a set each for Pearson and HTM on a non-consolidated basis for tax purposes and they can be prepared on a compilation basis to keep the year end audit costs down. The audited financial statements will be on a consolidated basis and this is a requirement for the P&C 1 industry.

It is expected that the number of transactions will be low and Alec mentioned we should start converting any broker bill policies to direct bill prior to July.

### **December 31, 2023**

We should be ready to wind up the separate Pearson Corporation by the end of 2023. Once the Pearson Corporation is wound up, we would be back to a single set of audited financial statements for tax and the P&C1.

Nancy asked if it would be possible to get a checklist for us to follow, to ensure that we do not miss any critical points. Brian suggests that there will not be a lot of extra work for the audit committee but he could provide us with a checklist.

Alec mentioned that in his 2022 budget, he amortized the Pearson purchase over 5 years and he asked Brian if he felt that was reasonable. Brian said HTM could potentially choose 5 to 10 years but he felt 5 years made sense for this purchase and it would not cause any concerns for him when they completed their audit next year.

### **Refund of Premium**

A question was asked if the Refund of Premium is net of tax. Brian was going to look into this, as well as whether it would be above or below the Underwriting Income line on the financial statement.

Alec asked if the refund of premium reduces our premium tax owing. Brian was sure it did not but he will let us know before the Board Meeting.

### **IFRS 17**

This change is the least complex for our P and C industry, and as we already use an actuary for our financial statements, we are ahead of other mutual companies who have not dealt with an actuary before. Our actuary already has our historical data and is familiar with our company.

IFRS 17 is effective January 1, 2023 however; preliminary work is required, as we have to restate our January 1, 2022 opening balance as if we were already on IFRS 17.

OMIA has taken a lot of work off us by preparing the white papers for us and making recommendations where required. Two of the decisions we have to make are:

- How to recognize revenue and as our policies are annual we have the options to continue to recognize revenue as we do now.
- Should we write off all of our deferred policy acquisition costs or continue to handle as we do now. Brian feels that DPAAE still makes sense as if a policy is cancelled midterm we would still want to reduce our commission on the policy; therefore, it is not fully earned when written.

The financial statement presentation and note disclosure will be changing. Brian can provide us with a simple mock up view of the opening Jan 1, 2022 statement.

Alec asked Brian if he felt they were prepared and knowledgeable on IFRS 17. Brian said they have already devoted resources to IFRS17 and will be adding more and that he is comfortable with their ability to deal with these changes.

### **Next Meetings**

Tentative date for next Audit Meeting to review financials – February 4<sup>th</sup> 2022. Alec will send out invite. Financial statements have to be posted online by February 12<sup>th</sup> 2022.

Annual meeting is March 12<sup>th</sup> 2022.