

Audit Preparation

(AFOA Conference – Feb 2009)

Why an Audit?

- ❑ Required by INAC and other funding agencies as a condition of funding.
 - ❑ If wishing to acquire debt or insurance, may need to provide audited financial statements.
 - ❑ Provide assurance to membership that the information provided is free of material misstatement.
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What is An Audit?

- An examination carried out by a Third Party of an organization's transactions and financial statements to determine if the statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP).
 - It is conducted in accordance with General Accepted Auditing Standards (GAAS) as set out by the Canadian Institute of Chartered Accountants. (CICA)
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Audit Report

The end result of an audit is the "Audit Report" which contains 3 Clauses:

- 1) Describes statements audited and the auditors' responsibility.

We have audited the consolidated balance sheet of ***** as at ***** and the consolidated statements of operations, changes in net assets and cash flows for the year then ended. These statements are the responsibility of the ***** management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

Audit Report (cont..)

2) Scope of Audit which explains how the audit was carried out.

"We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation."

Audit Report (cont..)

3) Provides the opinion

"In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of ***** as at ***** and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles."

- Types of Opinions
 - Unqualified (a good audit)
 - Qualified (may have questions on content)
 - Adverse (missing information and cannot adequately give a unqualified opinion)
 - Denial (not comfortable with information presented and therefore denied)
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What Auditors Look For

- ❑ An assessment of internal controls. If internal controls exist, a sample will be tested and if operating effectively, the auditor will rely upon these controls to reduce the amount of testing otherwise required.

 - ❑ Internal controls review may consist of the following items:
 - Management review of program expenditures/expenditures compared to budget
 - Segregation of duties
 - Bank Reconciliations
 - Authorization limits for purchase orders
 - Approved travel claim forms
 - Supervisor approval of timesheets and payroll costs
 - Management approval of invoices prior to payment
 - Two signatures on cheques
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What auditors look for (Cont)

Substantive audit procedures include:

- Vouching expenditures to actual invoices for all significant expenses
 - Agreeing amounts to other supporting documentation
 - Independent third party confirmation (i.e. – funding contributions, bank confirmations, debt confirmations)
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Preparing For The Audit

- ❑ Aim for well-maintained accounting records by preparing accurate monthly financial statements on a timely basis. This will alleviate additional work load at year end. Don't wait for the last minute.
 - ❑ Implement and update adequate accounting and spreadsheet software and other software that may be required.
 - ❑ Implement internal controls within the office and sub-offices.
 - ❑ Aim to have well-trained staff and if not, implement a plan to achieve this.
 - ❑ Be able to provide documentation supporting the financial system which means a filing system that can easily retrieve information on payroll, payables, receipts, contracts, etc....
 - ❑ Implement a process for selecting an auditor and providing a suitable workstation for auditors to perform the on-site audit.
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Auditor's File

On April 1st of year being audited, start a file which should include at a minimum:

- ✓ Copy of current year contracts and indicate which department funds are allocated to (revenue accounts and expense accounts)
 - ✓ Set up a calendar of reporting requirements and have reports available in individual contract files for auditor review.
 - ✓ Review your internal policies and ensure documentation is in specific files – i.e. – policies/procedures for payroll, purchases, cash receipts and outline any changes they need to know about.
 - ✓ Refer to approval levels and segregation of duties. Are they appropriate and have they changed from previous year?
 - ✓ Any new lending agreements and bank confirmations at year end.
 - ✓ Copies of budgets and indicate whether they have been summarized into the departments. (Are they reflected on your departmental income statements)?
 - ✓ Any minutes from fiscal year being audited
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Accounting Reviews

- ❑ Year End Accounting Review
 - ✓ Have all administrative charges been recorded?
 - ✓ Are all Bank Reconciliations/Receivables, Payables, capital assets, prepaids, service charges, interest earned and other sub ledgers as required completed.
 - ✓ Have all allocations from other programs been identified?
 - ✓ Are these entries booked monthly/quarterly/annually.
 - ✓ Have all adjusting entries from the previous year been recorded and do the audited financial statements mirror the accounting system at that specific year end.
 - ✓ Are measures in place that finance staff can do and reconcile this review. Do not leave it up to the auditors to do these reviews. They are not bookkeepers and any additional work of this nature costs!!!!
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Accounting Information for Auditor (upon arrival)

- Prepare a Checklist and ensure that as many items as possible can be available. This checklist can be discussed in consultation with your auditor.
 - Remember, the more items on the checklist you can do, the less it will cost for your audit.
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Questions?

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