



Community Sector Council  
Newfoundland and Labrador  
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## Webinar Wednesday!

### Preparing For Your Financial Statement Audit

25 April 2018




Presented by:  
Shelley Martin, CPA, CA  
Project Co-Coordinator, **BY THE BOOKS**



Preparing For Your Financial Statement Audit

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**CSC PROGRAMS**

- ▶ AMPLIFY 2018
- ▶ Annual Reports (CSCNL)
- ▶ By the Book\$
- ▶ Collective Impact
- ▶ Community Sector Pulse Surveys
- ▶ Community Sector Working Committee
- ▶ Creative HR
- ▶ Kind Minds
- ▶ NL Community Sector News
- ▶ Other CSC Initiatives
- ▶ Public Access
- ▶ Research and Policy
- ▶ Student Work and Service Program (SWASP)
- ▶ Suncoir Energy Foundation Partnership
- ▶ Training for Nonprofits
- ▶ Vibrant Communities
- ▶ Volunteer Week 2018
- ▶ Young Leaders Roundtable
- ▶ Completed Projects

**RESOURCE CENTRE**

- ▶ Directories of Community Sector Organizations
- ▶ About the Community Sector
- ▶ Starting a Nonprofit/Charity
- ▶ Board Development
- ▶ Financial Literacy
- ▶ Volunteer Management
- ▶ Human Resources
- ▶ Insurance and Liability
- ▶ Media and Public Relations
- ▶ Funding and Fundraising
- ▶ Youth / Career Development
- ▶ Training
- ▶ Technology
- ▶ CRA Compliance for Charities
- ▶ Social Enterprise
- ▶ CSC Audio/Video Clips

### COMMUNITY SECTOR COUNCIL NL NEWS



**Conversation with Paddy Daly**

Listen to Penelope Rowe, CEO, Community Sector Council Newfoundland and Labrador speak with VOCM Open Line host Paddy Daly. Hear them discuss Volunteer Week 2018, youth volunteering and the importance of the voluntary community based sector.

more

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**LATEST NEWS**

- Premier, minister announce plans for forestry, mining, and community sectors
- Building for Our Future: Premier Ball Announces Next Industry Sectors to be Developed in Phase Three of The Way Forward
- Build Your Capacity and Your IMPACT!

**KEEP CURRENT WITH CSC NL**

**Tweets by @CSCNL**

**Penny Rowe** @CSCNL

Thanks for sharing events about celebrating #valueVolunteersNL. Such a great province-wide movement supporting the community sector which is so central to economic and social progress. @MicheleMorinMHA @CBDCNL @cbdchnortip @northernpen #growingstrongertogether

Apr 18, 2018

**CSC NL EVENTS / TRAINING**

BY THE BOOKS Focus Group - Gander  
Apr 20 (10:00 am - 12:00 pm)

Outcomes Session 1 - Introduction to Outcomes - Focused Planning  
Apr 24 (9:00 am - 12:00 pm)

Governance - Back to Basics - GFW  
Apr 24 (11:00 am - 3:00 pm)

BY THE BOOKS: Preparing For Your Financial Statement Audit (WEBINAR)  
Apr 25 (11:00 am - 12:00 pm)

Outcomes Session 2 - Introduction to Outcomes Measurement  
May 9 (9:00 am - 12:30 pm)

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**BULLETIN BOARD** your community board

**EVENTS**

- Birds on the Rock Wednesday, May 2, 2018
- Chemo Brain Wednesday, May 9, 2018
- Geek Out the Library Day Saturday, May 12, 2018
- Mother's Day Brunch Buffet Sunday, May 13, 2018


**VOLUNTEER OPPORTUNITIES**


- Emergency Response Team (ERT) Supervisor - Volunteer Role  
*Canadian Red Cross*
- Personal Disaster Assistance (PDA) Supervisor - Volunteer Role  
*Canadian Red Cross*





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 Directory of Services


 Treasurers for Tomorrow

 Skills-Building

 Networking

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## Financial Statement Audit

“An audit engagement is the process of engaging an **independent public accountant to examine the accounting records and other evidence supporting the financial statements**; to prepare financial statements; and to render a **professional opinion that the financial statements present a fair picture of the organization's financial position and its activities during the period** in which the audit was carried out.”  
*(Corporations Canada, April 27, 2017)*

<https://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs04975.html#a>

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## Financial Statement Audit

“The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements.” (CAS 200.3)

- Provides **reasonable assurance** the audit is free from **material misstatement**, whether due to fraud or error
  - Purpose of an audit is NOT to detect/find fraud
  - The audit of the financial statements does not relieve ‘those charged with governance’ (i.e. the Board of Directors) of their responsibilities.

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## Sample Audit Opinion


*Basis for Qualified Opinion*

In common with many charitable organizations, the Canadian Cancer Society - Société Canadienne du Cancer derives its revenue from the general public, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the Canadian Cancer Society - Société Canadienne du Cancer and we were not able to determine whether any adjustments might be necessary to revenue, decrease in resources, assets and resources.


*Qualified Opinion*

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial resources of the Canadian Cancer Society - Société Canadienne du Cancer as at January 31, 2011, and its results of financial activities, its changes in resources and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*From Audit of Canadian Cancer Society at January 31, 2011, performed by KPMG.*

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## Review Engagement

“ A review engagement is the process of engaging an **independent public accountant** to prepare financial statements on a review basis. The accountant **will not express an opinion on the fairness** of the financial statements, but will only **provide a limited assurance that the financial information is plausible and conforms to generally accepted accounting principles.**”  
*(Corporations Canada, April 27, 2017)*

<https://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs04975.html#r>

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## Review Engagement

Provides **limited assurance**, primarily by performing **inquiry and analytical** procedures, about whether the financial statements as a whole are free from material misstatement

- Enables the practitioner to express a conclusion on whether anything has come to the practitioner's attention that causes the practitioner to believe the financial statements are **not** prepared, in all material respects, in accordance with an applicable financial reporting framework
- Known as ‘negative’ assurance

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## Sample Review Engagement Report

The procedures performed in a review are substantially less in extent than, and vary in nature from, those performed in an audit conducted in accordance with Canadian generally accepted auditing standards. Accordingly, we do not express an audit opinion on these financial statements.

*Conclusion*  
Based on our review, **nothing has come to our attention** that causes us to believe that the financial statements do not present fairly, in all material respects, the financial position of ABC Company as at December 31, 20X1, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

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## Compilation

“Compilation is the process by which **unaudited** financial information is **compiled to produce financial statements** that are based on information provided by the organization. A compilation **does not provide any assurances** as to the accuracy or veracity of the financial statements since there **has been no audit or review engagement done.**”

<https://www.ic.gc.ca/eic/site/cd-dgc.nsf/eng/cs04975.html#c>


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## Are We Required to Have an Audit?

- It depends!
- Factors to consider:
  - Whether the organization is incorporated provincially versus federally
  - Canada Revenue Agency
  - Organizational by-laws
  - Funders


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## Federal Incorporation

- The Canada Not-for-profit Corporations Act (NFP Act) does require certain nonprofit organizations to have audited financial statements
  - Depends on whether organization is a 'soliciting' organization
    - i.e. Receives more than \$10,000 in a year from public funds i.e. donations, government grants, etc.

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## Federal Incorporation


### Level of financial review

The level of financial review required will depend on whether the corporation is a soliciting or non-soliciting corporation (see [Requirements for soliciting corporations under the Canada Not-for-profit Corporations Act](#)).

Level of financial review for soliciting corporations		
Gross annual revenues	Appointment of public accountant	Review engagement or audit
\$50,000 or less	Members must appoint a public accountant (PA) by ordinary resolution at each annual meeting. Exception – Members may waive appointment by annual unanimous resolution.	PA must conduct a <a href="#">review engagement</a> , but members may pass an ordinary resolution to require an audit instead. (If no PA is appointed, then only a <a href="#">compilation</a> is necessary.)
More than \$50,000 and up to \$250,000	Members must appoint a PA by ordinary resolution at each annual meeting.	PA must conduct an audit, but members can pass a special resolution to require a review engagement instead.
More than \$250,000	Members must appoint a PA by ordinary resolution at each annual meeting.	PA must conduct an audit.






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## Federal Incorporation

Level of financial review for non-soliciting corporations		
Gross annual revenues	Appointment of public accountant	Review engagement or audit
\$1 million or less	Members must appoint a PA by ordinary resolution at each annual meeting. Exception – Members may waive appointment by annual unanimous resolution.	PA must conduct a <a href="#">review engagement</a> , but members may pass an ordinary resolution to require an audit instead. (If no PA is appointed, then only a <a href="#">compilation</a> is necessary.)
More than \$1 million	Members must appoint a PA by ordinary resolution at each annual meeting.	PA must conduct an audit.




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## Provincial Incorporation

- No clear requirement to have an audit as per *Corporations Act*
  - No clear requirement not to have an audit, either!


**Organization meeting**

171. (1) After issue of the certificate of incorporation, a meeting of the directors of the corporation shall be held at which the directors **may**

- (a) make by-laws;
- (b) adopt forms of security certificates and corporate records;
- (c) authorize the issue of securities;
- (d) appoint officers;
- (e) **appoint an auditor to hold office until the 1st annual meeting of shareholders;**
- (f) make banking arrangements; and
- (g) transact other business.

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## Provincial Incorporation

- From 'Part XIII Financial Disclosure' of the *Corporations Act*:


**Appointment of auditor**

265. (1) Shareholders of a corporation shall, by ordinary resolution, at the 1st annual meeting of shareholders and at each succeeding annual meeting, appoint an auditor to hold office until the close of the next annual meeting.

- (2) An auditor appointed under section 171 is eligible for appointment under subsection (1).
- (3) Notwithstanding subsection (1), where an auditor is not appointed at a meeting of shareholders, the incumbent auditor continues in office until his or her successor is appointed.
- (4) The remuneration of an auditor may be fixed by ordinary resolution of shareholders or, where not so fixed, may be fixed by the directors.


Where the definition of a 'shareholder' is as follows:

(dd) "shareholder" includes a member of a corporation to which Part XXI applies except where inconsistent with that Part;

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## Provincial Incorporation

- However Part XIII also states:


**Dispensing with auditor**

**266. (1)** Notwithstanding section 265, the shareholders of a corporation other than a corporation mentioned in subsection 263(1) may resolve not to appoint an auditor.


(2) A resolution under subsection (1) is valid only until the next succeeding annual meeting of shareholders.

(3) A resolution under subsection (1) is not valid unless it is consented to by all the shareholders, including shareholders not otherwise entitled to vote.

(4) Upon the application of a corporation that is a wholly owned subsidiary of a holding body corporate, the registrar may exempt the corporation from appointing an auditor in the circumstances that may be prescribed.

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## Provincial Incorporation

- You DO have to present annual financial statements

**Annual financial statements**

**258. (1)** The directors of a corporation shall place before the shareholders at an annual meeting

(a) comparative financial statements, as prescribed, relating separately to


(i) the period that began on the date the corporation came into existence and ended not more than 6 months before the annual meeting or, where the corporation has completed a financial year, the period that began immediately after the end of the last completed financial year and ended not more than 6 months before the annual meeting, and

(ii) the immediately preceding financial year;


(b) the report of the auditor; and

(c) further information respecting the financial position of the corporation and the results of its operations required by the articles, the by-laws or a unanimous shareholder agreement.

(2) Notwithstanding paragraph (1)(a), the financial statements referred to in subparagraph (1)(a)(ii) may be omitted where the reason for the omission is set out in the financial statements, or in a note to it, to be placed before the shareholders at an annual meeting.

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## Canada Revenue Agency


### Financial statements

You must attach financial statements when you file your T3010 annual information return even if your charity was not active during the fiscal period or had a zero balance. If the financial statements are missing, you have not filed a complete return.


**Note**

If you have **income over \$250,000**, the Charities Directorate **recommends** that you get your financial statements professionally audited, otherwise, the treasurer for the charity should sign them.

Recommendation pertains to charities (no such recommendation for nonprofits other than charities)


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## Organizational By-Laws

- Specific to each organization
- By-laws may clearly state whether an audit (or review engagement) is required
- If not stated in by-laws, it is Board's responsibility to make decision
  - Board is also responsible for appointing auditors and communication with auditors
  - Audit Committee!


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## The Role of an Audit Committee

- Appointment of external auditor
- Audit planning, including establishing timing and reviewing the audit plan (as presented by external auditor)
- Reviewing and approving draft audited financial statements
- Reviewing and responding to auditor’s findings with respect to internal controls


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## Preparing For an Audit

- Being as prepared as possible is a “win-win”
  - Auditor is able to perform audit efficiently
    - Helps maintain agreed-upon audit fees
- Pre-audit communication
- Preparing the accounting records
- Preparing working papers and other documentation


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## Pre-Audit Communication

- Communicate with auditor so there are no ‘surprises’ and the auditor can plan accordingly
  - Clarify expected date for audit
  - Date reports are needed
    - I.e. Board needs to approve statements before AGM
  - Significant or unusual events during the year
    - I.e. New projects/contracts
    - Significant change in staff (new CEO)
    - Suspected or confirmed errors and irregularities (including fraud)
    - Legal issues


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## Pre-Audit Communication

- Request a list of items to prepare!
  - Prepare only what auditor needs
  - Don’t waste time preparing things the auditor won’t use
- (see sample list in Handouts)



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## Preparing Accounting Records

- Audit goes most smoothly when organization's books are complete when submitted for audit
  - All revenues and expenditures recorded
    - Make accruals where invoices not received
  - All journal entries made
  - Bank accounts are reconciled
  - Assets and liabilities have been reviewed to ensure they are recorded at their correct amounts



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## Preparing Working Papers

- Support for significant assets and liabilities:
  - ✓ Bank reconciliations and statements
  - ✓ Aged Accounts Receivable listing and subsequent receipts (as well as doubtful accounts)
  - ✓ Prepaid expense calculations
  - ✓ Capital asset schedule
  - ✓ Aged Accounts Payable and subsequent payments
  - ✓ Details of amounts owing to government (i.e. HST)
  - ✓ Deferred revenue calculations



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## Preparing Working Papers

- Revenue and expense analytical
  - Comparison to prior year(s)
    - By major type or account
  - with explanation for 'significant' changes



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## Preparing Other Documentation

- External auditors normally want to see detailed the general ledger for the following types of accounts:
  - Repairs and maintenance
  - Meals and entertainment
  - Professional fees
  - 'Miscellaneous' accounts




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## Preparing Other Documentation

- External auditors will also want to see:
  - ✓ Employment contracts (i.e. CEO)
  - ✓ Support (invoices) for capital asset purchases
  - ✓ Support for new agreements (i.e. funding, leases)
  - ✓ Minutes during (and after) the period
  - ✓ Payroll remittances and GST filings
  - ✓ Correspondence with lawyers
- The organization is responsible for the preparation of financial statements!


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## Summary

- Co-operation and communication will help the audit go as smoothly (and quickly) as possible, and will help keep those fees down!
  - Clear expectations for both the organization and external auditor
  - Timing (i.e. deadlines) are known to both parties
- This will also help in maintaining a professional and cordial relationship with the external auditor

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## List of Handouts

- ✓ *Sample List of Requested Items for Audit* (Brian T. Scammell, CPA, CA, CBV, March 2018)
- ✓ *The Difference Between an Audit and a Review Engagement* (The Strauss Blog, May 2016)
- ✓ *Financial Information Kit* (Charity Central, March 2010)
- ✓ *Why RFPs should be a nonprofit leader's best friend* (Charity Village, October 2012)
- ✓ *A Guide to Financial Statements of Not-For-Profit Organizations: Questions For Directors to Ask* (CPA Canada, 2012)

\* Handouts will be emailed to you after the session

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## Links

CPA Canada: <https://www.cpacanada.ca/en/business-and-accounting-resources/financial-and-non-financial-reporting/not-for-profit-organizations>

Charity Village: <https://charityvillage.com/app/>

Charity Central: <https://www.charitycentral.ca/>

Corporations Canada: [http://www.strategis.gc.ca/eic/site/cd-dgc.nsf/eng/h\\_cs03925.html](http://www.strategis.gc.ca/eic/site/cd-dgc.nsf/eng/h_cs03925.html)

CPA NL – Lists of Licensed Public Accountants:  
<https://www.cpanl.ca/en/serving-the-public/licensed-public-accountants>

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# Save the Date!


## To Reserve or Not to Reserve – A Panel Discussion


**Monday, 14 May 2018**      **2:00pm – 4:00pm**

**Provincial Learning Centre**  
**NL Housing & Homelessness Network**  
1 East Dr., St. John's, NL (Corner of East Dr. and Charter Ave.)

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**EVALUATION**

- Excellent
- Good
- Average
- Poor

Please complete the feedback form provided.

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**Thank-You!**

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