

Preparing for Your Audit

Nonprofits and Charities



February 8, 2023
1:00 – 2:30

Nonprofit Financial Series

 IntegralOrg

1

Land Acknowledgement

We acknowledge that what we call Alberta is the traditional and ancestral territory of many peoples, presently subject to Treaties 6, 7, and 8.

Namely: the Blackfoot Confederacy – Kainai, Piikani, and Siksika – the Cree, Dene, Saulteaux, Nakota Sioux, Stoney Nakoda, and the Tsuut'ina Nation and the Métis People of Alberta.

This includes the Métis Settlements and the Six Regions of the Métis Nation of Alberta within the historical Northwest Métis Homeland.

2

Training Participation via Zoom



Mute your microphone when you are not speaking to help keep background noise to a minimum.



Use Raise Hand, Chat, and Reaction functions to engage with the facilitators and other participants.



Use of video is recommended for this interactive and participatory workshop.



This session will be recorded. All presentation slides and recordings will be made available to registrants



Respect Privacy & Confidentiality of other participants and organizations sharing their experiences.

3

Your facilitator *for*

Preparing for Your Audit

Nonprofits and Charities

Stella Penner, FCPA, FCGA, CA

Consultant, Stella M. Penner Professional Corporation
Financial Educator *for* IntegralOrg



4



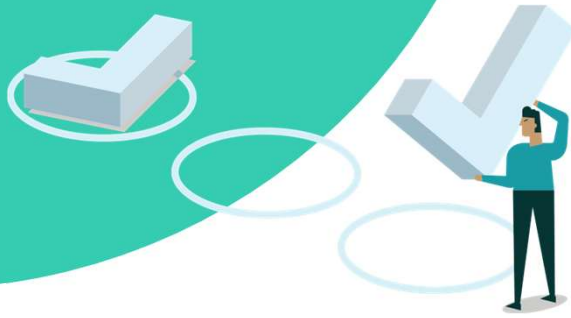
Overview

- Do you need an audit?
- Who's in charge? Roles of the key parties
- How long will it take? Timeline
- What should we expect before, during, and after?
- Why does the auditor ask so many questions?
- What can we do to improve the process?

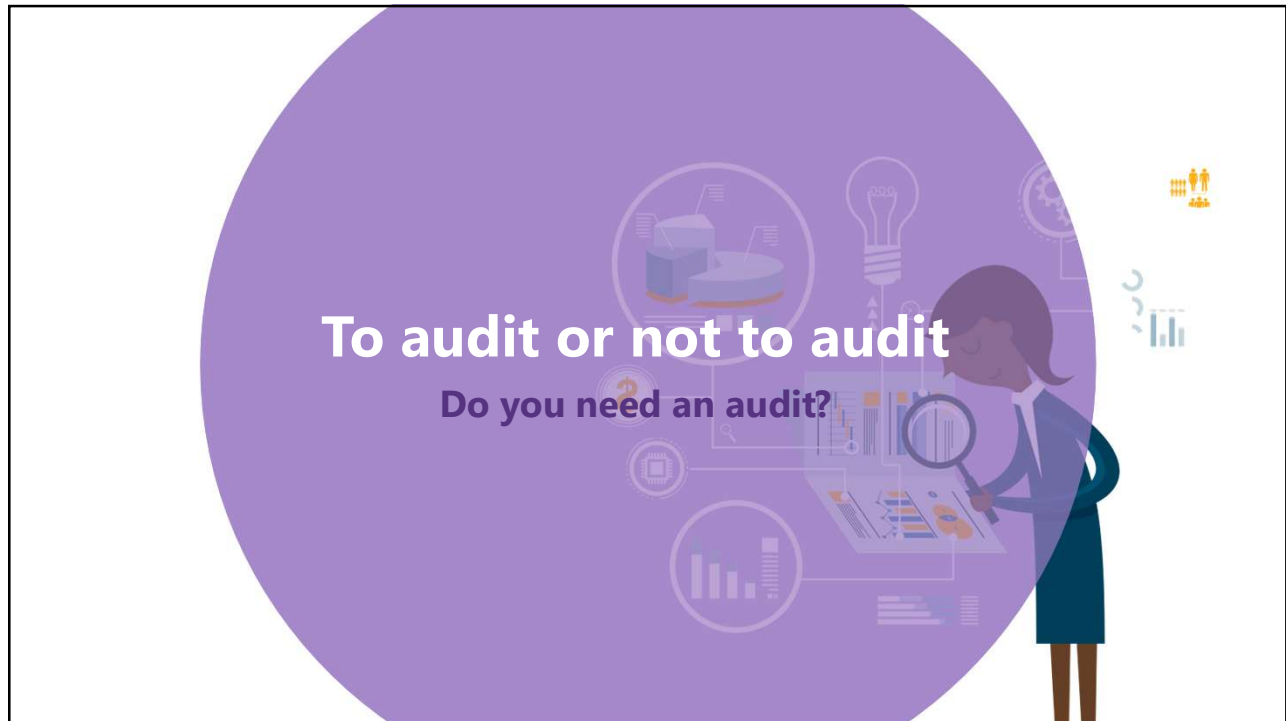
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We want to hear from you!

How familiar are you with the audit process?



6



7

Who Decides?

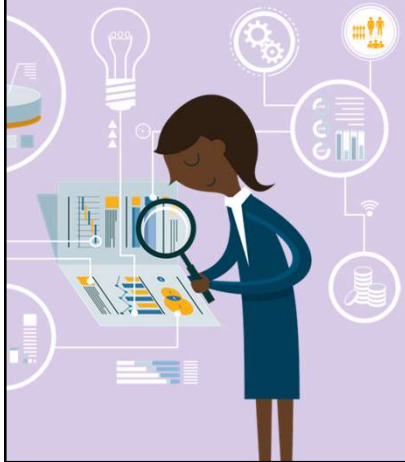
- **Incorporating legislation**
- **Bylaws**
- **External requirements**
- **As part of good governance**

Consider definitions and terminology

- *"independent"*
- *"qualified"*
- *"generally accepted accounting principles"*

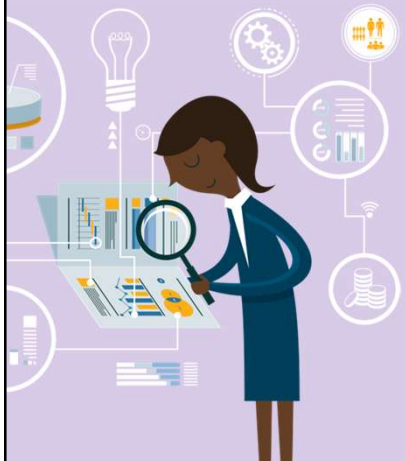
8

Who's Involved? Key Parties



9

Typical Timeline Key Parties



10

We want to hear from you!

What's your greatest fear when it comes to the auditing process?



11

What to Expect

Each stage in detail



12

Before Year End



Appointment of the Auditor

- Bylaws will determine process and timing
- Processes differ when changing auditor

Sign an **Engagement Letter**

Organization's policy will determine who signs:

- Board Representative?
- Audit Committee Chair?
- Executive Director?

13

Before Year End



Auditor beings **planning** – first time audit

- Agree on timeline
- Requests documents needed in advance
- Understand your systems (questionnaire or interview)
- Meets with management
- Meets with audit committee*
- May do some advance testing/document inspection

* This session assumes you have an audit committee.
Alternative may be a finance committee, treasurer or other board representative. Read as "audit committee or equivalent".

14

Post Year End



Client “*closes the books*”

Provides auditor with requested records. Including:

- General ledger and trial balance
- Bank statements up to 1 month after year end
- Board and committee minutes
- Information about new contracts/commitments/significant events

Auditor imports data (trial balance) into audit file

15

Post Year End Planning



Auditor completes **materiality, risk assessment and audit plan**

- **Materiality:** the amount of aggregate misstatements that the auditor believes would affect a FS user's decisions if they knew of it
- **Risk Assessment:** What is the risk that material misstatements may occur?

Communicates with audit committee* about:

- Audit plan
- Risk considerations
- Audit approach

* Alternative may be a finance committee, treasurer or other board representative. Read as “audit committee or equivalent”.

16

The Audit Visit



Fieldwork

- Auditor visits the client or accesses records remotely
- Inspects selected documents and agrees them to accounting records
- Questions – *so many questions*
- Auditor may propose adjustments; management agrees (or not)

Audit file completion and **internal review**

- Manager or partner assesses if enough audit evidence has been gathered
- May request audit team to obtain more information/clarify matters

17



The Financial Statements

Financial Statements (FS) are **drafted**

- Auditor may prepare the draft FS, or
- If FS were drafted by client, then that draft is matched to the audit file

Draft FS are **reviewed by management** for comment or correction

Clean draft is provided to board for approval

- May go to audit committee* or directly to the board
- Info about adjustments proposed and accepted (or not) by management provided
- Obtain signed *management representations*

18



Release of Financial Statements

After board approval, auditor issues **final Audit Report** and **final Financial Statement**

Final version is included in Annual Report and/or AGM agenda package

- Auditor is obligated to ensure any published reports (including the financial information) are consistent with the audited FS

If auditor is assisting with Tax Filings and/or funder program, these can now be finalized

19



Questions from the Auditor

20



What is the auditor looking for?

CAS (Canadian Audit Standards) require auditor to document that they:

- Assessed risk
- Communicated with those charged with governance oversight over financial reporting at planning and at completion of audit
- Understand the client's accounting and control systems
- Examined reliable documentary evidence supporting the financial statements
- Are of the opinion that an appropriate accounting framework was followed in preparing financial statements
- Planned some new/unexpected procedures annually

21



Audit Documentation

The auditor must **document (be able to prove)** that CAS was followed including:

- All steps as listed before
- They asked both management and the audit committee* whether they are aware of any allegations of fraud
- If internal control weaknesses were observed, what compensation controls does the client have? How much does the weakness increase audit risk?

22

Improving the Audit Process

What can the client do?
What if we find an error?
What can the auditor do?



23

What can the client do?



- Be aware of and respect **agreed timelines**
 - Keep all the parties aware of key deadlines (accounting staff, management, audit committee, and board)
- Get a **comprehensive document request list** in advance
- **Book resources** such as meeting rooms, remote access links etc., **in advance**
- Identify a **point person** within the organization to coordinator document exchange

24

What can the client do?



What may be on that **document request list**?

- General ledger and trial balance
- Internally prepared financial statements/budgets
- Bank statements (including post-year end)
- Major contracts (leases, funding/program contracts, purchase of major assets, collective bargaining agreements)
- Board and audit committee minutes
- Tax returns filed in year (GST, T4s etc.)
- Tracking use of restricted revenue (e.g., deferred contribution schedule)

25

What if we find an error?



In the beginning balances:

- Agree the year's beginning balances to the prior year audited financial statements before *closing the books* this year
- If they do not agree, investigate why and either correct or bring details to auditors attention

26

What if we find an error?



In the accounting records after auditor has been sent the trial balance?

- Inform the auditor
- Give the auditor the planned correction with supporting documentation
- Please do *not* send a revised trial balance

27

What if we find an error?



After the audit?

- While recording year end adjusting entries?
- Agree adjusted trial balance to audited FS
- If differences found:
 - **Trivial?** Bring to auditor attention
 - **Not trivial?** Management should discuss with auditor whether this may affect the audit opinion they just issued

28

What if we find an error?

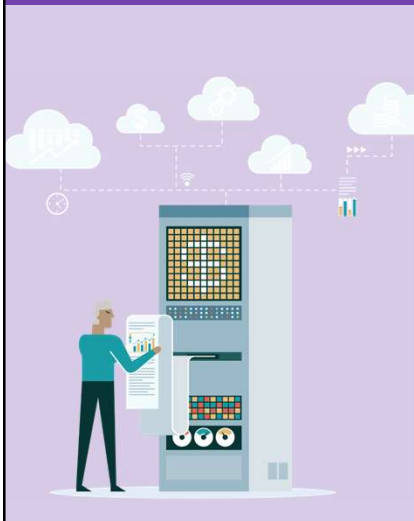


In prior year records at a later point?

- **Trivial?** Bring to auditor attention as part of next year's audit
- **Not trivial?** Management should discuss with auditor whether the FS should be withdrawn and re-issued

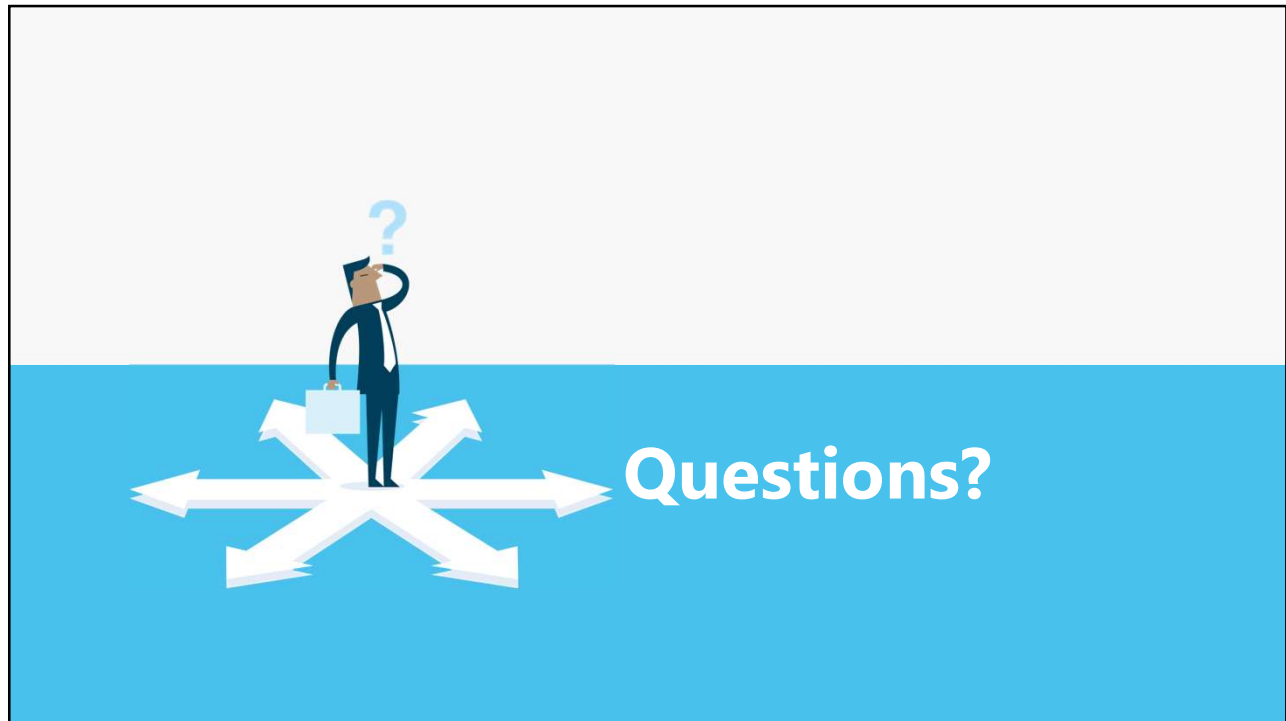
29

What can the auditor do?



- Respect **agreed timelines**
- **Keep in touch** with client
 - **Respond** to phone calls and emails on a timely basis
- Get **engagement letter** and **planning request** out **early**

30



31

Consultations

When you have questions about nonprofit management, IntegralOrg has services to help.

A virtual or phone conversation

or

A clinic, a 1-hour problem-solving session between IntegralOrg subject matter experts and your team.

You might have questions about

- Attaining charitable status
- Strategic planning
- Policies & bylaws (writing and review)
- Social enterprise legal structures
- Governance and board development

CONSULTATIONS ARE FREE OF CHARGE

Find out more at integralorg.ca/who-we-work-with/clinics/

32

Upcoming Webinars

Perfect overviews for your organization's management, board members, and staff

Register at integralorg.ca



GST Basics

Wednesday, May 4th 1-2:45pm
With Stella Penner, FCPA, FCQA, CA



Disbursement Quotas and Qualifying Disbursements

Thursday, Feb 23rd 1-2pm
with C. Yvonne Chenier, Q.C.

33

Thank you for attending!

At IntegralOrg, we offer workshops across Alberta in governance, legal compliance, financial management, change management, and risk management.

Register at integralorg.ca



**Please complete our
evaluation survey!**

*Your feedback will inform the
delivery of our future training
opportunities!*

34



Consultations | Workshops | Toolkits | Organizational Development Projects

Go-to problem solver for your nonprofit

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- Board Development
- Strategic Planning
- Risk Management
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35

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36