AFOA BC AUDIT PREP 2024

An Audit Preparation Workshop Guide

Acknowledgements

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About Us
AFOA BC strengthens First Nation communities by building leadership and management capacity through professional development training and education. AFOA BC was founded in 1996 in response to the need for a united voice for those working in the critical fields of Aboriginal finance and administration in this province.

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AFOA BC would like to acknowledge the contribution that Norman Grdina has given to the Audit Preparation workshops that AFOA BC has been doing for the last 10 years.
Norm has been the driving force behind these workshops and has presented them all over the province.   He has provided guidance and laughs to all of us and we appreciate the time and knowledge that he brought to the sessions.
Thank you, Norm, for your contribution and we will always remember that "We love our Auditors"!

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About Your Audit

The Auditing and Assurance Standards Board (AASB) is an independent body with the authority and responsibility to set standards for quality control, audit, other assurance and related services engagement and guidance in Canada. An audit is a process that is performed by an independent auditor based on audit standards set by AASB.

The purpose of the audit is to determine whether an entity's financial statements are fairly presented and in accordance with appropriate Public Sector Accounting Standards.

For First Nations, Tribal councils, Band and Indigenous organizations audits are typically required by legislation and or the funder(s) as stated in the funding agreements.

First Nations are Governments, and being so, they must comply with Public Sector Accounting Standards (PSAS). These standards are set by the Public Sector Accounting Board (PSAB) which establishes Generally Accepted Accounting Principles (GAAP) for Governments.

While your organization will typically contract an auditor for a financial audit, public institutions receiving funds from a federal government agency must comply with the Public Sector Accounting Standards (PSAS). **Public sector accounting** is an accounting method applied to non-profit pursuing entities in the public sector – including Bands, Tribal Councils, Indigenous controlled entities, and quasi-governmental special corporations – for which the size of profits does not provide an effective measurement for evaluating performance.

The reporting concepts or rules that guide the audit are set out by the **Generally Accepted Accounting Principles** GAAP. Key terms your audit may use are:

- **Business entity** – Treat a business or an organization and its owners as two separately identifiable parties
- **Going concern** – Continuing activity

- **Conservatism** – The convention of conservatism, also known as the doctrine of prudence in accounting is a policy of anticipating possible future losses but not future gains
- **Objectivity** – That accounting decisions should be made independently of biases and subjective methods and based instead on measurable assessments that can be supported by additional evidence
- **Time period concept** – The time period principle is the concept that a business should report the financial results of its activities over a standard time period, which is usually monthly, quarterly, or annually
- **Revenue recognition** – An amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (exchange transactions) or transactions that increase the economic resources of the entity without a direct transfer of goods or services (unilateral or non-exchange transactions)
- **Matching** – Resembles one another – i.e., revenue and expense
- **Materiality** – A concept or convention within auditing and accounting relating to the importance / significance of an amount, transaction, or discrepancy
- **Cost** – the cash (or cash equivalent) given up for an asset which includes all costs necessary to get an asset in place and ready for use.
- **Consistency** – The same accounting principle for preparing financials statements over a number of time periods
- **Full Disclosure** – All of the information necessary for readers to understand those records

A **Government Business Enterprise**, like a Band or tribal owned corporation, is an organization that has ALL the following characteristics:

a) It is **a separate legal entity with the power to contract** in its own name and that can sue and be sued
b) It has been **delegated the financial and operational authority** to carry on a business
c) It **sells** goods and services to individuals and organizations **outside** of the government reporting entity **as its principal activity**
d) It can, in the normal course of its operations, maintain its operations and meet its liabilities from revenues received from sources outside of the government reporting entity

*Reported on Modified equity basis (not fully consolidated) if above criteria are met

Income Tax Consideration for Government Business Enterprises

An Indian Band is tax exempt as a "public body performing the function of government" under section 149(1)(c) of the Income Tax Act.

This tax-exempt status under section 149(1) (d.5) is extended to a corporation of which the First Nation owns at least 90% of the capital, provided that 90% of the corporation's income is earned within the boundaries of the reserve or treaty lands of the First Nation owners.

However, 100% of the income of a corporation is fully taxable if the corporation is more than 10% owned by entities that are not tax exempt First Nations or if more than 10% of the corporation's income is earned outside the boundaries of its First Nation.

The Audit

The audit does two things – it examines the truthfulness of the financial statements and provides assurance to other parties. The audit is driven by the need for funds to be expended for the intended purpose.

Representation	It is a systemic and independent examination of books, accounts, documents, and vouchers of an organization to determine that the financial statements represent a true and fair view of the entity which is communicated through an Audit Report.
Gives	It presents a **Third-Party Assurance** to recipients and stakeholders that your organization's financials are free from material misstatements, (i.e., errors), based on documents the Auditor received. It is also a declaration to your funding agents, like Indigenous Services Canada, Health Canada, Canada Mortgage and Housing Corporation, and Department of Fisheries and Oceans, of your ability to meet your contractual obligations.

It's intended purpose is for your citizens, membership and funding partners. It shows you are being accountable and fulfilling your commitment. For funders, these obligations are outlined in your funding agreement.

Your management's responsibility includes the preparation of Financial Statements based on:

Protection of the assets of the Nation

Reasonable estimates

Maintenance of internal controls

Judgments

The Audit Process

Followup Audit Findings Report/ Management Letter

Audit Planning

Attendance at AGM

Preliminary Assessment

Completion Audited Financial Statements

Audit Plan

Conclusion & Reporting

Performing the Audit

If you understand the audit process:

- it is easier to be prepared for the audit
- reduce the time spent by your auditor, and
- to be patient during the audit.

Types of Audits

There are basically *three different types of audits* (Financial, Operational and Compliance) with a Fourth or Investigative audit which may involve a blend of all audit types to fulfill a specific purpose.

Financial	•A system review of your financial reporting to ensure all information is valid and conforms to GAAP standards – this is the most common audit form
Operational	•An organization's usage of resources to ensure they are being utilized as efficiently and effectively as possible to accomplish the mission and goals of the organization
Compliance	•Determines if an organization or program is operating in according with laws, policies, regulations and procedures
Investigative	•Commissioned when there is an assumed violation of rules, regulations, or laws, and may involve a blend of all the previously mentioned types of audit

ISC Audit Package

When you contract funds from Indigenous Services Canada (ISC), you receive an annual customized **Audit Package** that lists all the funds your organization has received from ISC. The ISC reports are aligned to the First Nations Financial Reporting Requirements (FRR).

The package contains forms you are required to complete as part of the reporting requirements. Your audit requirements are specified in your funding agreements and outlined in the Audit Package which are submitted to you in two parcels:

- **1st Package** – contains documents to be published on the internet including remuneration of elected officials
- **2nd Package** – contains documents not to be published on the internet – including remuneration of unelected officials

ISC requires that the Annual Audited Financial Statements include:
1) Audit Findings Report / Management Letter (strongly recommended)
2) Auditor's Report
3) Consolidated Statement of Financial Position
4) Consolidated Statement of Operations (including budget figures)
5) Consolidated Statement of Net Financial Assets
6) Consolidated Statement of Cash Flows
7) Notes to Financial Statements

Current ISC Funding Approaches

When ISC Indigenous Services Canada provides funding, it classifies the funds as Grant, Fixed, Flexible, and Block contribution. As of April 1, 2018, set funding is only to be used in limited situations, such as when requested by the recipient or when the department identifies the need to use the approach as a risk management tool. It is important to understand the different types of funds and ISC policies that apply to each. Unspent funds may be restricted to a specific use or may be required to be returned after a period – unapproved use or expenditure of these types of funds could result in your organization struggling to repay this money.

Type of Funds	Pre-established eligibility	Performance Conditions (assessed annually)	Claw backs or recovery of unspent funding	
			Annually	Other
Grant – 10 year	Yes	Annual Reporting	n/a	n/a
SET Contribution	Limited situation - April 1, 2018	n/a	Recovery	n/a
Fixed Contribution	Fixed-cost approach	Yes - Program basis	Generally, no claw back if funds used for purposes consistent with program objectives within a 2-year period	
Flexible Contribution multi-year funding agreement	Yes - certain assessment criteria	2 or more-year relationship with recipient	Movement within program but unspent funds must be returned to the department at the end of the project, program or agreement	
Block Contribution multi-year funding agreement - Currently majority of your funding is under a 5-year block funding agreement	Yes - certain readiness assessment criteria	Progress towards program objectives must be achieved	N/A if program delivery standards have been met and the recipient agrees to use the unspent funding for purposes consistent with the block program objectives	

ISC also has another 'Grant' outside of the New Fiscal Relationship (NFR) Grant which is purely used for Band Support Funding. There are no recoveries on this funding.

What happens during the audit?

During the audit, the auditor will prepare the following:
- **Plan** – specific guideline to be followed when conducting an audit.
- **Audit Scope** – the amount of time and documents involved in an audit. The scope establishes how deeply an audit is performed. It can range from a simple audit to complete, including all company documents.
- **Audit Findings Report / Management Letter** – is written by a company's external auditors. The letter verifies the level of accuracy of the financial statements that the company has submitted to the auditors for their analysis.
- **Recommended Adjustments** – are proposed corrections to the organization's general ledger that is made by the auditors. The auditors may base the proposed correction on evidence found during their audit procedures, or they may want to reclassify amounts into different accounts.
- **Implementation** – assistance and follow-up in applying recommendations.
- **Internal Control Documentation** – is a carefully structured, logically sequenced series of questions that help management and internal auditors document processes and highlight control gaps, strengths, and weaknesses within a system.

Audit Findings Report - Management Letter

An audit finding is a comment on either the design and or the effectiveness of the system of internal control and may involve financial reporting, compliance, and/or the design or effectiveness of internal controls.

An Audit Findings Report / management letter is addressed to the client that communicates the information, findings, and opinions derived from the audit. It communicates either acceptability of the status of the management system or reports non-conformances that need corrective action.

Auditor Working Papers are used to document the information gathered during an audit. They are informational documents prepared by accountants and auditors as support for formal reports such as audited financial statements. These working

papers provide evidence that enough information was obtained by the auditor to support their opinion regarding the underlying financial statements. They also serve as proof of audit procedures performed, evidence obtained and the conclusion or opinion that the auditor reached. Any working papers created by the auditor are the property of the auditor.

Auditor's Report Outline:

Auditor's opinion	Beginning of the report
Auditor's Independence and Ethics	Explicit Statement of the Auditor's independence
Going Concern	Explicitly mentioned in the report Separate section when a material uncertainty exists
Key audit matters	Separate section for matters of most significance to the audit
Other information	Separate section when the entity prepares other information, such as an annual report, containing or accompanying the entity's financial statements and auditor's report thereon. Depends on timing of auditor's report and preparation of the other information

The Auditor's Role and Responsibilities

Your auditor's primary responsibilities are to:
- Identify items that have a reasonable possibility of causing the financial statements to be materially misstated
- Design and execute tests to determine whether such misstatements (inaccuracies) have occurred
- Where applicable, test the effectiveness of Internal Controls

The auditor reviews any activity that affects the Nation's funding or finances in order to focus on what is most important to financial statement users, broken down basically into three categories of importance:

Transactions	•Occurrence •Rights and obligations •Completeness •Valuation and allocation
Account Balances	•Existence, rights and obligations •Completeness •Classification and understandability •Accuracy and valuation
Presentation & Disclosure	•Occurrence, rights and obligations •Completeness •Classification and understandability •Accuracy and valuation

Prior to the pandemic, when your auditor arrived for field work, their goal was to accomplish two things:

1) Evaluate your internal controls
2) Test the operating effectiveness of internal controls by testing a sample of your transactions

The acceptable testing procedures are characterized as Substantive and Control:

Substantive Test	Financial Statements	A procedure to examine the financial statements and supporting documentation to see if they contain errors. These tests are needed as evidence to support the declaration that the financial records are complete, valid, and accurate.
Control Test	Policies & Procedures	Determines whether an organization is following its own policies and procedures. It aims to ensure internal controls are operating effectively. EXAMPLE: Evidence is gathered with the objective of testing an organization's compliance with established control procedures, such as checking that all purchase orders contain two approval authorities per purchase policy.

This goal has not changed but their approach has. The use of technology continues to support the auditors' ability to complete their goal.

If he or she cannot rely on your internal controls, they will spend additional time substantive testing your records based on predetermined materiality and risk levels.

- Generally, works through your **trial balance** to make sure the numbers are reliable
- Numbers become reliable by you preparing **reconciliations** in advance of the audit field work
- Takes a representative sample of the year's transactions and expresses an opinion on whether they accurately reflect the Nation's financial position

The auditor will test the information provided to evaluate the integrity and accuracy of data, a transaction or other information, for example, check vendor payments to monthly statements.

If your auditor is satisfied with his or her initial sample of your data, no further testing will occur. Yet, if any of the following are discovered then the auditor may require further samples.

- Approval is missing
- Transactions require reallocating
- Items cannot be traced to a bank statement
- Invoices contain arithmetic errors
- Documents do not agree to contract amounts

The reality is the preparation and accuracy of your accounting records, along with how effective your financial policies are, are a major factor in determining what your auditor will charge for his or her services.

> The audit should be a priority to your accounting department, and your availability is crucial to the process.

What can't your auditor do?

An auditor cannot guarantee 100% accuracy. It is not possible to design an audit that eliminates all risk of misstatement. It would not be cost-effective to review every transaction and compare to your general ledger.

Considering cost, the auditor will focus on the existence of an asset rather than the valuation of such an asset; and items that potentially could be understated rather than those that may be overstated.

Audit Opinions

- **Disclaimer of Opinion** – is the auditor's statement that they were unable or were not allowed to complete all planned audit procedures report
- **Qualified** – is the auditor's view that they are unable to give an unqualified, or clean, audit opinion – that limited inconsistencies (i.e., errors) exist and are identified in the audit report
- **Unqualified** – is issued if the financial statements are presumed to be free from material misstatements, they are considered accurate; it is the most common type of auditor's opinion.
- **Adverse** – they misrepresent or are not reflective of the nation's financial position

Emphasis of Matter and Other Matter Paragraphs –

(Canadian Auditing Standard 706)

The auditor's responsibility and the purpose of the Audit Report is to convey the auditor's opinion on the financial statements; but if the auditor believes there is a matter that must be brought to the attention of users (i.e., funders and other readers) of the financial statements then additional paragraphs called "Emphasis of Matter" and "Other Matter" may be added. – Canadian Auditing Standard 706

Emphasis of Matter	Pertains to a matter that is already adequately disclosed or presented in the financial statements, and, in the auditor's judgment, it is necessary to bring the matter to the user's attention, thus emphasizing it, by also referring to that matter in the financial statements
Other Matter	Pertaining to a matter other than those presented or disclosed in the financial statements and, in the auditor's judgment, it is necessary to bring the other matter to the user's attention by providing relevant details
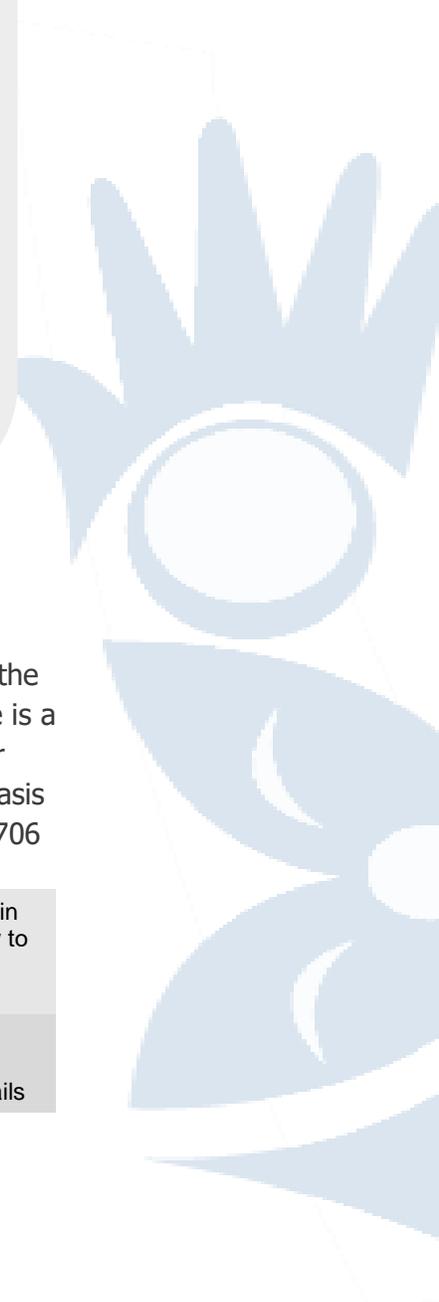
Timing of Auditors' Communications is Important in the possible continued temporary replacement of Auditor Field Work Visits

Be certain you are ready for the auditors' communication timeline. Do this by keeping your records up to date. If you don't have them ready, your auditor will do these tasks close to or during the year end remote communications visit resulting in more time to complete the audit and at a higher cost.

Interim and Final Audit Work

An **interim audit** involves preliminary audit work that is done before your fiscal year-end. The interim audit tasks are done to shorten the period needed to complete the final audit. Doing so benefits you as it enables the auditor to complete the audited financial statements sooner.

Interim Audit

- Takes place just before the year end and focuses on tests of control
- It is done during the financial year to detect problems early and presents a chance to correct them
- Reduces the work load of doing one large comprehensive audit at the financial year end

Final Audit

- Is the audit conducted at the end of financial year and in most situations is a statutory requirement
- Takes place between the year-end and the reporting deadline
- Focuses on substantive procedures

Preparing for the Audit

When preparing for the audit, you should understand who the audit is being done for and what information they require in that audit. Knowing this will then guide you in defining the audit scope.

Who First Nations prepare audits for

- Community members
- Managers of a program or special funding
- Senior management
- Chief and Council
- Indigenous Services Canada (ISC)
- Health Canada
- Taxpayers of Canada – FNFTA (Bill C-27 the *First Nations Financial Transparency Act**) – On December 18, 2015, the Minister of Indigenous Services Canada issued a statement indicating that the department:
    - o has stopped all discretionary compliance measures related to the *First Nations Financial Transparency Act*
    - o is re-instating funding withheld from First Nations under these measures
    - o is suspending any court actions against First Nations who have not complied with the act
    - o The *First Nations Transparency Act* has been abandoned without actually repealing the Act

    *The Current status of Bill C-27 is that it is still under review.

Four recommended activities to be completed in preparation for the audit:
1) Setup a Finance and Audit Committee
2) Prepare an audit plan
3) Source an auditor
4) Get your books in order – enter transactions and organize required documentation

1) Setup a Finance and Audit Committee

During the year and in preparation for the audit, your organization should consider the creation of a Finance and Audit Committee. A Finance and Audit Committee (FAC) oversees the financial reporting and audit functions of a First Nation or organization. It provides forward-thinking oversight of the investments and supports leadership in making good financial decisions. The committee is usually established by the leadership – i.e., the Council or Board of Directors.

Members of the committee should possess accounting, auditing, financial reporting, and finance expertise. Suggested position composition is Council Representative, Community Representative and someone external with finance expertise.

The committee is **responsible to review and make recommendations to Council or Board of Directors on the following administration matters of the Nation for:**
- ❑ Budget review
- ❑ Monthly financial review
- ❑ Auditor appointment
- ❑ Audited financial review

Budgeting is:
1. Matching expenditure priorities with revenues
2. Monitoring finances to anticipate potential trouble, before it's too late
3. Promoting responsible fiscal management, planning and decision-making
4. Preventing deficits
5. A process of committing resources to programs for specific purposes
6. Budget values that should relate back to community goals
7. Monitoring at least quarterly and re-allocating, increasing or decreasing expenditures
8. Providing timely information to achieve effective budget management
9. Timely review of to-date expenditures (monthly or quarterly)
10. Incorporating changes to revenue forecasts into planning

Budget Process

Depending on the size of your organization the budget process may involve:
- Meetings with senior management and program directors
- Meeting with program directors and staff
- Staff costs program priorities
- Develop program expenditures estimates

- Financial estimates summarized by "financial controller" and submitted to finance and audit committee and or chief and council
- Chief and council review, adjust and approve
- Program directors implement adjusted budget

2) Prepare an Audit Plan

The audit plan (sometimes called an auditor program) is an action plan that documents what procedures an auditor will follow to validate that an organization is keeping with compliance regulations.

Do discuss the auditor's plan prior to starting the audit process in order to be aware of the planned scope and timing. The prior year's **Audit Findings Report / Management Letter** is generally the starting point for your auditor to assess the current year's audit testing and risk assessment process.

The goal of your audit plan is to create a framework that is detailed enough for any outside auditor to understand what official examinations have been completed, what conclusions have been reached, and what the reasoning is behind each conclusion.

Your audit plan will generally include:
1) Identifying any changes in your organization
2) Addressing any regulatory changes
3) Determining materiality levels
4) Assessment of financial reporting risk identified during your previous audit
5) Timing of the audit including a cost estimate or budgeted fee.

3) Source an auditor

After you have identified your entities to be audited and understand the scope of work required from all your funding agents, you need to engage an auditor.

To find the auditor, begin by doing the following.
- Prepare the call for Auditor Terms of Reference TOR (check online for sample TOR or from another indigenous organization).
- Check with other First Nations and Indigenous organizations like your own for recommendations on auditors.
- Not all auditors have First Nations or Indigenous organization experience, ask for and check references or a peer review.

- Before you decide on an auditor, conduct enough due diligence to know whether a conflict of interest exist. Be certain to check with your Councilors / board members as part of that investigation.
- Free consultations are an opportunity to interview potential CPAs or audit firms.
- Do ask for references and / or resumes of individual CPAs within larger firms.
- Be aware of your funders' audit requirements when sourcing an auditor.

4) Get Your Books in Order

Before the audit begins, prepare for the auditor field visit by having a clear understanding within your accounting department of:

- **What** work will be done?
- **Who** the audit is being done for?
- **Who** will do the work?
- **When** the equivalent of the field work visit will occur – from start to end during Covid-19 and social distancing measures?
- **Where** the auditor will work?
- **What** the estimated fee is for the auditor's service?
- **What** file transfer application will you use to transfer files (ie. Dropbox, email etc.)?
- **What** communication tool will you use to communicate with your auditors (ie. Zoom, Microsoft Teams, Citrix)?

Preparing for Your Auditor

- ✓ Update your current **organizational chart** – this assists the auditor in gaining an understanding from year-to-year of:
  - your administrative structure
  - nature of your operations
  - changes in structure
  - familiarity with your employees
- ✓ Document the implementation of any **Audit Findings Report** or **Management Letter** recommendations from the previous year
- ✓ Assign a temporary work space for the auditors – close to the office staff and records – *after Covid-19 and social distancing have ended*
- ✓ Provide access to all employees and pertinent records *by providing requested samples during Covid-19* – important in determining how effectively the auditor can perform the job
- ✓ Make sure you and your auditor agree on a file transfer mechanism for transferring files and samples.
- ✓ Record all transactions prior to providing your Trial Balance to the auditor.
- ✓ Assemble the information your auditor will require into paper or electronic folders.

Be certain to discuss these items with your auditor.

REMEMBER: The more documents you can prepare prior to your auditor's visit, the fewer files the auditor will need to request during the field visit, and you will have fewer files to put away.

Other Ideas and Tips

Gather & Organize Information

Insure you place copies of documents received and not posted, into a paper or electronic file folder for your auditor.

Electronic files are logical ways to assemble financial information required by your auditors *throughout the year* and should result in a higher quality of reporting, easier access to documents you need, lessen the risk of misfiled documents, and maintain control over confidential documents.

Documents to get together include:
1. Trial Balance
2. Budget
3. Minutes of Chief and Council meetings
4. Band Council Resolutions
5. Prior year ISC audit review letter
6. Copies of all funding agreements
7. Statement of financial position accounts
8. Revenue and expense accounts

These are also good headings for separate file folders whether they are paper or electronic folders / directories (see **Guide to Preparing for the Audit**).

Summary

Auditors use a working paper index to classify documents. Ask if your auditor has their own system.

TIP: Request a copy to organize your documents in a similar fashion then set up dividers or folders / directories for each classification or group based on that list. Under Revenue and Expense, you may create sub-tabs for department or fund code segregation.

The Date of the Auditor's Report
Under Canadian Auditing Standards (CAS), the auditor's report technically cannot be dated earlier than the date the financial statements approved by Chief and Council.

Other Ideas and Tips
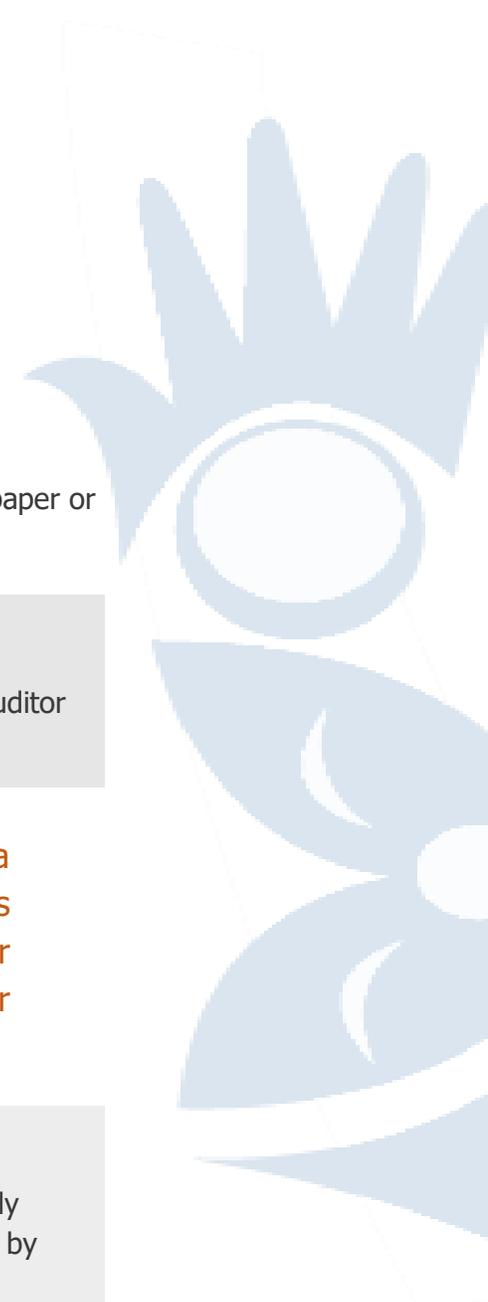
Risk and Internal Controls

What is Risk

Risk – The chance of something occurring that can have an impact on achieving desired outcomes

Risk Management – The term applied to a logical and systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organizations to minimize losses and maximize opportunities

Risk can increase where there are changes within the organization or external requiring the organization to adjust its systems. Common risks that may affect an entity's ability to accurately record, process, summarize and report financial data:

New or changes to:
- Personnel
- Information systems
- Technology
- Activities
- Restructuring
- External accounting pronouncements
- Governing laws

No matter how well internal controls are designed, they can only provide reasonable assurance that objectives have been achieved. Beware of common arguments against implementing better financial controls.

The Risk Assessment Process
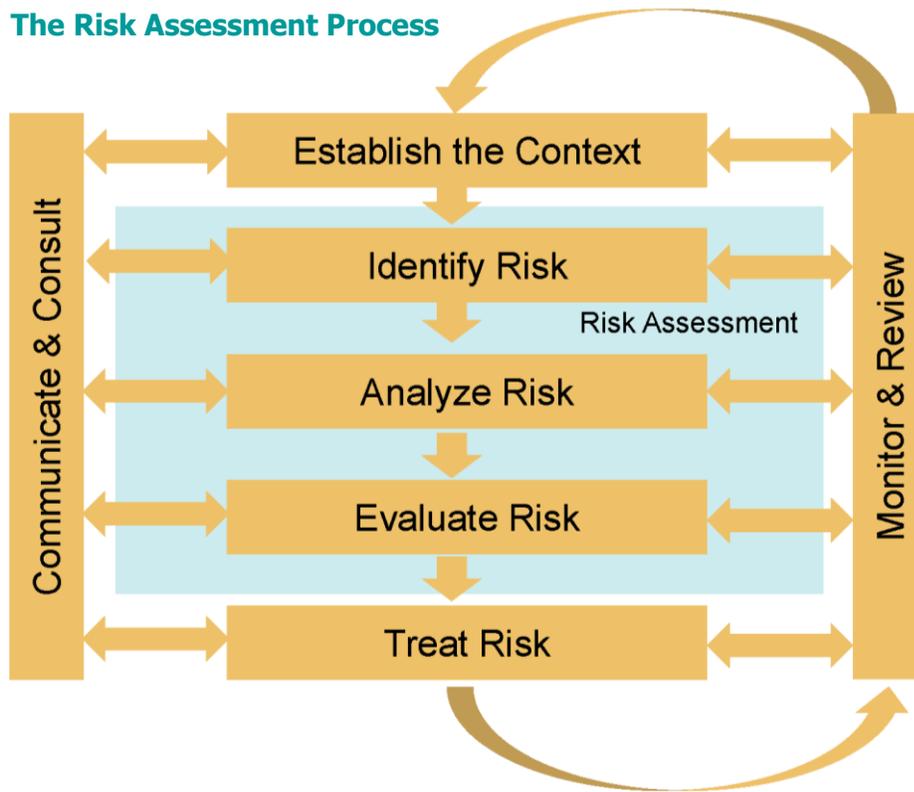
Defining Risk – Risk Categories

COMPLIANCE	Risk related to existing laws and regulations for employment, workplace safety
STRATEGIC RISKS	Internal risks within the organization's control taking into account strengths, weaknesses, opportunities, aspirations and results; remaining vital and relevant; accommodating current trends; planning for the future; retention and transfer of knowledge; staff succession
GOVERNANCE RISKS	Risks related to decision-making and oversight; adherence to ethical standards; organizational structure and performance; management of conflict among members; staff; succession planning for Council and committees; by-laws status.
FINANCIAL RISKS	Risks related to management of good financial practices; minimizing unethical financial practices; greater flexibility to direct funds; long-term financial sustainability; contractual standards.
OPERATIONAL / PROGRAM RISKS	Risks related to key programs in the areas of human resources management; capacity requirements to meet member and program expectations; succession planning for staff
EXTERNAL RISKS	Risks that are not in direct control of the organization
COMMUNICATION RISKS	Risks related to internal and external communications; information management systems; crisis and issues management; media relations; risks related to managing reputation; image management; missed opportunities to promote and meet success outcomes; intellectual property; social media management; confidentiality

What is a Risk Registry

A **risk registry** is a tool in risk management and project management. It is used to document potential risks that can derail intended outcomes and to plan actions to manage each risk. It is essential to the successful management of risk and projects and may also be required to fulfill regulatory compliance.

As risks are identified they are logged in the register and actions are planned and taken to respond to the risk. Risk is first categorized as – Compliance and Strategic risks.

Compliance	External	Risk related to existing laws and regulations for employment, workplace safety
Strategic Risk	Internal	Internal risks within the organization's control considering account strengths, weaknesses, opportunities, aspirations and results; remaining vital and relevant; accommodating current trends; planning for the future; retention and transfer of knowledge; staff succession

Then the significance of the risk is defined. The **risk management process** uses terms to rate the possibility of a risk occurring and the consequence should it occur. Recording and tracking of the level of risk is placed in a Risk Registry using the following factors.

Possibility (P)	• **Unlikely** – less likely to happen than not Possible – just as likely to happen as not • **Probably** – more likely to happen than not • A possibility could also be 'almost certain' sure to happen
Consequence (C)	• **Minor** – will have an impact on the achievement of the objective that can be dealt with through internal adjustments • **Moderate** – will have an impact on some aspect of the achievement of the objective that will require changes to strategy or program delivery • **Serious** – will significantly impact the achievement of the objective *A consequence could also be **'catastrophic'** – it will have a debilitating impact on the achievement of the objective.*

Other risk definitions:

Existing Measures	Current strategies, practices, procedures, programs and initiatives that the organization already has in place to reduce the likelihood of the risk occurring or reduces its consequences should it occur
Possible Measures	The ideas for new strategies, practices, procedures, programs or initiatives that were generated during the risk management process
Commitments	The suggested / agreed-upon actions that your Nation will pursue to address an area of risk

Communications	Communication helps to understand what your Nation's risk tolerance is, thus potentially resulting in new behaviors and decisions. To be effective, every risk management measure requires a communications component that is captured in the risk registry.
Monitoring	Procedures in place by the Nation to periodically test the risk process – risks should be checked and monitored regularly.

Internal Controls

Internal controls are all of the policies and procedures management uses to achieve the following goals:

- Safeguard assets
- Ensure reliability and integrity of financial information
- Compliance with laws and regulations
- Efficient and effective operations
- Accomplishment of goals and objectives
- Prevent fraud

Policies are used as regulation, supervision, and oversight of the financial and operations of an organization.

The **First Nations Financial Management Board** developed policies on finances and operations that can be used as templates to the development or improvement of your organizations own policies. These are available for download free of charge through the FNFMB visit https://fnfmb.com/en/tools-and-templates.

Prepare Financial Policies

Financial Policies contain payment systems driven by the need of promoting financial stability, market efficiency, and client-asset and consumer protection. They are specific and act as the 'Pillars and Internal Controls (DCPs)' of Internal Controls and process.

The purpose of the financial policy is to describe and document how leadership wants financial management activities to be carried out. In order to accomplish this, every financial policy needs to address five areas:

Five Areas of the Financial Policy

1. Assignment of authority for necessary and regular financial actions and decisions, which may include delegation of some authority to staff leaders

2. Policy statement on conflicts of interest or insider transactions

3. Clear authority to spend funds, including approval, check signing, and payroll

4. Clear assignment of authority to enter into contracts

5. Clear responsibility for maintaining accurate financial records

Major Internal Control Components

Creation of an effective financial system involves creating a control environment along with corresponding control activities. Hand-in-hand with these controls are how information and communication are managed, and risk is assessed.

Control Environment Factors that set the tone of an organization as well as control consciousness of its participants	• Integrity and ethical values • Commitment to competence • Human resource policies and practices • Assignment of authority and responsibility • Management's philosophy and operating style • Finance and Audit Committee participation • Organizational structure
Control Activities Various policies and procedures that help to insure necessary	• Performance reviews – actual against budgets

actions are taken to address risks affecting an entity's objectives	• Information processing – checks for accuracy, completeness, authorization
	• Physical controls – physical security
	• Segregation of duties

Accountability, Information and Communication

Providing information and communicating with your funders and citizens / members are fundamental to being accountable. To your funders is horizontal accountability and citizens / member is vertical accountability.

Horizontal Accountability	• Reporting requirements
	• 3rd party management considerations
Well documented that First Nations, in practice are more than accountable to funding agencies.	• Funding requirements
Vertical Accountability	• Mandated requirements
	• Constitutional policies
How do we improve accountability relationship between First Nation Governments and community members?	• FMB Certification

Accountability are processes and structures used to direct and manage the affairs of your organization with the objective of enhancing your communities' value and effectiveness, including ensuring financial viability (source). It comes in several different forms:

Types of Accountability	
• Political / Managerial	• Policies (expand)
• Ethical issues – elections, open community meetings	• Fiscal – Fiscal bylaws, information sharing, budgeting
• Program / Administrative	• Community Members

Where does accountability start?
- Starts with your community's strategic plan and development of community's objectives
- Without a clear statement of strategic objectives, there is no basis for establishing accountability

- For First Nations, with increased responsibility comes the need for increased accountability

- From a community perspective, everyone has a role to play in its accountability

- Community Members – help define the community's strategic objectives

- Band Management & Staff – Design and implement strategies to meet community objectives. This includes budget development

- Chief and Council – Approve management plans and strategies, and Monitor progress

When an organization is accountable it realizes:
- Increased community involvement

- Greater ability to proactively address new opportunities

- Greater protection from financial risks

- Enhanced ability to leverage financial resources

- Taxation

- Provides greater comfort to possible partners and funding agencies

Transparency is one of the key principles of accountability and good governance. It is built on the free flow of information ensuring key issues and components of the governance process are directly accessible by community members. As well adequate and easily understood information is made available in a timely manner to your people.

Part of this accountability is for leadership (Chief and Council, Board members) to provide the appropriate direction to the finance department and the overall organization through 'financial stewardship', being fulfilling their responsibilities and establishing the right financial management elements.
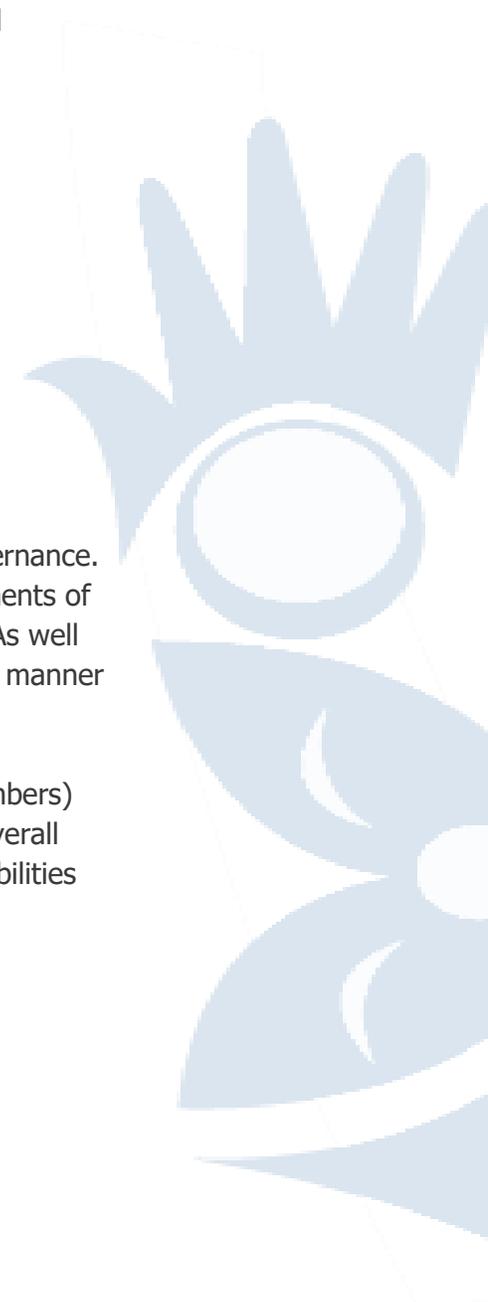
Council Responsibilities	Financial Management Elements
The role of Council to perform financial stewardship is to:	These responsibilities translate to establish the following elements:
• Act only in the community's interest	• Finance and Audit Committee
• Ensure policies and processes are in place to achieve objectives that will create a better community	• Financial Management Policy or by-law
• Evaluate the performance of senior management	• Budget and Control System
• Set the future direction	• Purchase and Payments System
• Establish budgets	• Cash Management System
• Provide ongoing financial management	• Asset Management System
• Conduct regular reviews of Financial Performance	• Membership Communication Plan
• Review historical performance	• Conflict of Interest guidelines
• Approve the annual audit	• Qualified Management Staff

Leadership must also ensure the preparation of:

- **Strategy Development** – provides a sense of direction and outlines measurable goals. Strategic planning is a tool that is useful for guiding day-to-day decisions and also for evaluating progress and changing approaches when moving forward.

- **Fiscal Planning** – identifying revenue sources for the activities identified in the strategy.

What risks are evident in the purchase and invoice payment system?

Purchase order → Approval to purchase → Receipt of invoice → Approval of invoice → Payment of invoice
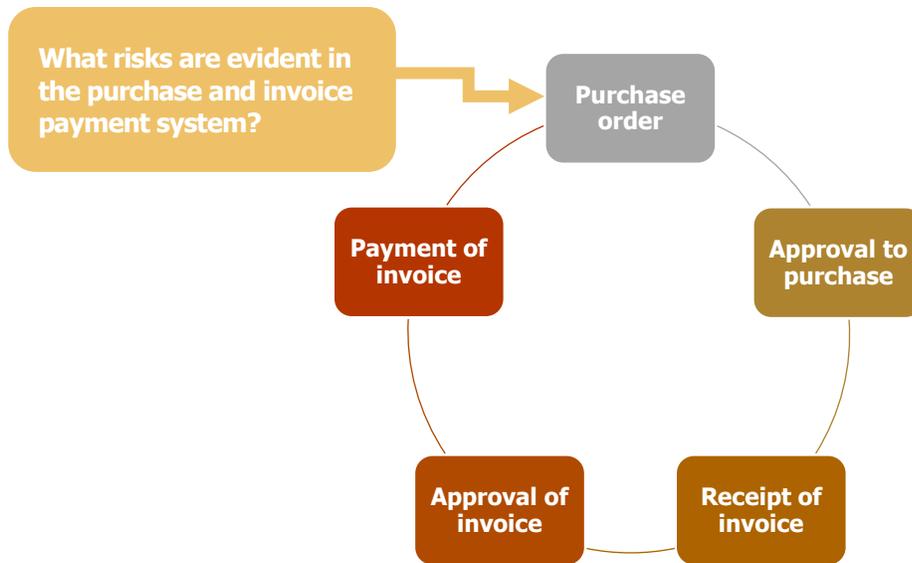
Arguments Against Not Implementing Internal Controls

1. Not enough staff to have adequate segregation of duties

2. Too expensive

3. Employees are trusted so controls are not necessary

Most often, time and money spent on controls will not only **avoid problems** but will pay you back in **gained efficiencies**.

Effective financial policies and controls along with their implementation practiced year-round can promote a smooth and swift audit.

Self-assess basic internal controls and risk

Set Goals – The minimum goals of the Finance Department should include:

1. Financial reporting done on a regular timely manner with discrepancies investigated immediately

2. The existence of a formal budget process

3. General ledger accounts reviewed for misallocations and adjusted prior to the auditor's communications in lieu of field work visit during Covid-19.

Division of Duties

- Accounts Payable clerk does not do bank reconciliation
- Accounts Receivable clerk does not open mail or prepare deposits
- Person picking up bank account reconciliations is not the same conducting the reconciliation

Approval Controls

- Clearly communicate who has approval authority and define that authority (i.e., limitations)
- No one should approve or sign a cheque request to themselves
- Cheques paid out and payroll cards should have a signed approval and an account code

Risk Highest Priority

When establishing internal control measures to minimize risk, these categories require the highest measure of controls due to their possibility of having significant impact on the organization.

Cash

- Cash is an entity's most liquid asset, which means it can easily be used to acquire other assets, buy services, or satisfy obligations.
- Cash includes currency and coin on hand, money orders and cheques made payable to the entity, and available balances in bank accounts.

> **SIMPLE CONTROLS: Monthly Bank Reconciliations**
>
> Insure good control and allow recovery of misappropriation of funds due to errors created by banking personnel. Banks are not responsible for errors or omissions reported to them after thirty days. Refer to "Notation for victims of forged cheques" and "How to detect a Forgery" handouts.

Accounts Receivable

The collection of accounts receivable is vital to the survival of any economic entity. However, receivables, by their very nature, have numerous inherent control issues.

SIMPLE CONTROLS: Know the Entities & Individuals

Know the entities or individuals that make up your Accounts Receivable listings. Sub ledgers are an integral part of the receivable control within an economic entity. Written collection policies cannot be underestimated. Posting to control accounts should be avoided.

Consider setting up sub ledger accounts for Funding sources, such as ISC.

Allowance for doubtful accounts requires constant scrutiny, particularly when rental arrears are an issue within First Nations communities.

SIMPLE CONTROLS: Regularly Adjust Credit Balances

Reconcile and adjust credit balances on a regular basis to ensure the reliability of the accounts receivable sub ledgers as well as the control accounts.

Accounts Payable

Calculation 'errors' as well as the use of post office box addresses have fueled many well-known fraud schemes.

SIMPLE CONTROLS: Check Supplier Invoices

Know your suppliers and check invoice numbers, totals and calculations on a regular basis. Quantity verification to purchase orders are a must, and ensure you received what you ordered and at the price ordered.

Innocent or contemplated duplicate payments cost organizations thousands of dollars every year in Canada.

SIMPLE CONTROLS: Original Invoices & Supplier Statements

Do not use copies of invoices for payments and reconcile to supplier statements. Demand statements of accounts if suppliers do not provide them and check prices regularly. Often in small communities' regular suppliers need to be accountable to the competitive market values of goods and services.
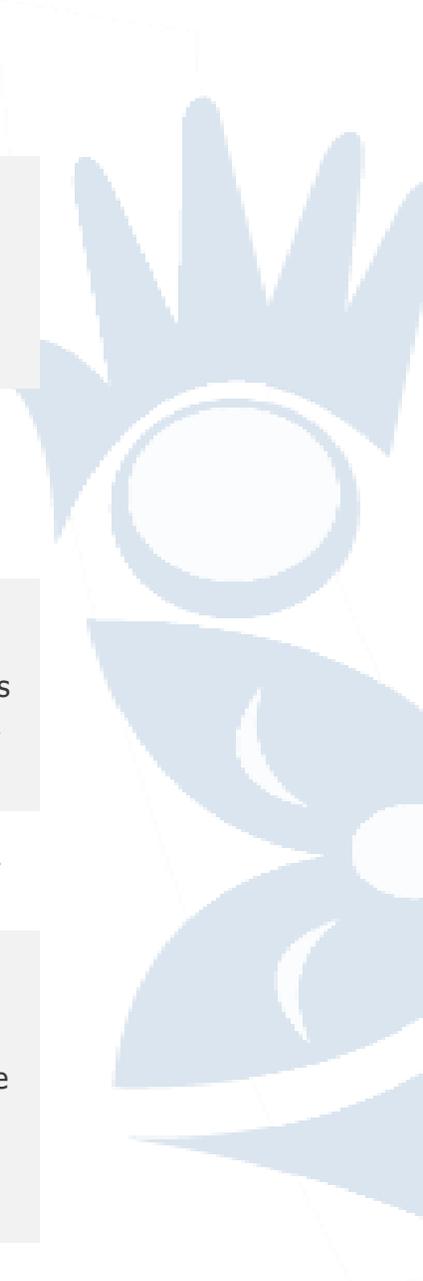
Payroll

Payroll controls start with contracts for services to ensure that severance and potential disputes are predictable (or equitable). Salaries, wages and benefit costs must be contingent on availability of funding to avoid expensive legal disputes.

> **SIMPLE CONTROLS: Employee Contracts**
>
> Contracts should be individually drafted for Executive, Fixed Term and Indefinite Term Employees.

Human Resources Manuals are essential for internal controls regarding payroll.

> **SIMPLE CONTROLS: Human Resource Manual**
>
> - Insure that a Human Resources Manual detailing policies and procedures is available for management and employees, and
> - Maintain employee personnel files to insure evidence for potential wrongful dismissal suits.

Diversifying Revenue Sources

Governance and planning are an opportunity to create new initiatives and programs that can better your community. ISC funding alone will generally not meet your community's needs. Consequently, the organization needs to identify other revenue sources to meet the community or organization's needs. This can be done through community strategic planning activities that identifies community-based objectives that will require resources. In identifying other sources:

Be creative, proactive, don't be limited by ISC funding initiatives

Based on desired community objectives, prepare an Action Plan to identify additional resources

Identify area – Health, Education, Economic Development

Identify possible funding source

Financial Reporting

Being accountable means answering and reporting to your audiences – they are both internal and external to your organization's operations. For each audience, determine:

- **What** you should provide?
- **What** you are required to provide to your audiences?
- **How** the information will be presented?
- **Who** you will provide the reports to?

Internal Reporting

Everyone who is tasked to manage a program reports to Chief and Council and Community members. Reporting to **funders** is to be done as the funding agreements state.

Managers	Council and CEO
• Revenue and expenditure statements • Comparatives to budget and last year • Access to general ledger detail • Concerns regarding variances	• Full statements • Performance measures • Revenue and expenditure statements • Comparatives to budget and last year • Concerns regarding variances

Managers need to receive accurate and timely reporting related to each of the cost centres they are charged to manage. Where possible, managers should have 'read only' access to the general ledger detail of each of their cost centres, meaning they cannot edit the information they receive. Managers should also be able to print their own statement of operations for their cost centres.

What information should each receive?

Managers
- Written financial report and performance report to CEO / First Nation Manager by the 15th of the month following
- Report needs to identify progress in relation to the work plan and to identify any material variances from budget
- After review by CFO and CEO, reports are compiled for presentation to Chief and Council in summary form – at least one week prior to Council meetings

Sr. Management
- CFO and CEO review manager reports for accuracy and congruence with work plans and overall strategic community plans
- Managers revise reports as necessary
- Identify any material variances in both performance and financial management with recommended actions to change either the activities or the plan
- Compile reports in summary form for C&C at least one week prior to Council meetings

Chief & Council
- Chief and Council review management reports during the week prior to Council meetings
- Based on recommendations from Senior Management give direction related to any necessary changes to either the plan or the activities
- Consider communication with Members

Community Members
- Annual audited financial statements – to be presented
- The audit process – related to the community
- Management discussion and analysis should accompany audited statements

External Reporting

There are several outside agencies you will be required to report to. Some are:

- Banks
- Creditors
- Possibly joint venture partners
- All other funders – Grants normally come with a reporting provision
- Taxpayers of Canada – First Nations Financial Transparency Act (FNFTA)

Funders other than ISC, FNHA or CMHC may also have a financial reporting requirement, including the requirement to submit audited financial statements with your project report. When your auditor is preparing the audit statements, provide them with your funder's contracts, as possible tag in your contracts the areas that state reporting requirements.

Tips

When reporting to others, have this information on hand ready to share.

- Chose a timeframe that suits your community
- Provide your Mission Statement along with program goals and objectives
- Include information about Council
- State yearly goals, objectives and accomplishments
- Include the financial statements, future plans and budget variances
- Provide attachments – e.g., development plans

Five-year Financial Plan (FP)

Be certain to have the Five-Year Financial Plan (FP) adopted annually to:

- Set out the proposed expenditures, funding sources and transfers between funds for each service
- Establish procedures that identify the types of circumstances that would qualify as an emergency
- Undertake a process of public consultation regarding a proposed FP before it is adopted

The ability to communicate financial information to stakeholders is a key component of developing sound financial strategies and assessing the financial health of your organization. In itself there will be difficulty in the communication of finances to your membership or any stakeholders. There will be collective differences in business backgrounds and experiences in dealing with finance and financial matters.

Keep these points in mind when preparing the presentation of the audited financial statements to your audiences. While email can serve the purpose of being quick and providing details, it can be impersonal, and your audience may lack the knowledge to read financial statements and they may have questions that are best answered in-person. Face-to-face with community members whether it is in focus groups, small meetings or community forums are needed for a successful communication process.

In a survey of 950 people, when asked, "What is your preferred method of communication?" The responses were:

Preferred Method Of Communications

Text Message 3%
Social Media 5%
Phone 13%
Email 40%
Face-to-Face 39%
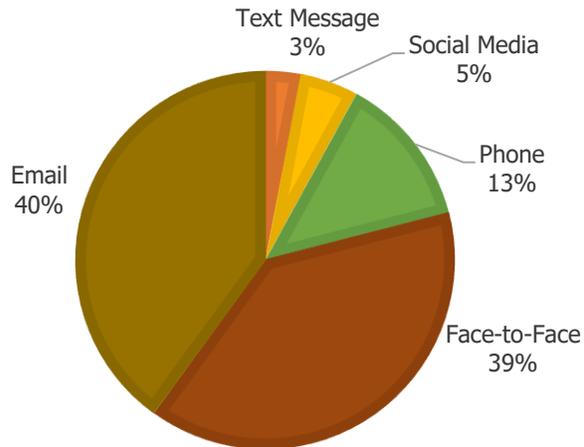
If you're preparing a PowerPoint presentation, use the following guidelines when to develop your slides.

PowerPoint Smart Practices

- ✓ **The Rule of Six** – use no more than six words per line, and six lines per slide
- ✓ **Text Size** – font must never be smaller than 24 pt
- ✓ **Less is More** – use words and phrases, not entire sentences on your slides
- ✓ **Engage Your Audience** – prepare at least 1 or 2 questions to present your audience so they become engaged in your presentation
- ✓ **Other Considerations** – pictures, dialogue, colors, ratios (use the web)

Other Ideas and Tips

PS 3280 – Asset Retirement Obligations (ARO)

Definitions

Asset Retirement Activities: These include all activities related to an asset retirement obligation.

Examples include but are not limited to:

- o decommissioning or dismantling a tangible capital asset that was acquired, constructed or developed;
- o remediation of contamination of a tangible capital asset created by its normal use;
- o post-retirement activities such as monitoring; and
- o constructing other tangible capital assets to perform post-retirement activities.

Asset Retirement Cost: The estimated amount required to retire a tangible capital asset.

Asset Retirement Obligation: A legal obligation associated with the retirement of a tangible capital asset

Recognition

An ARO should be recognized when the following criteria are met:

a) there is a legal obligation to incur retirement costs in relation to a tangible capital asset;
b) the past transaction or event giving rise to the liability has occurred;
c) it is expected that future economic benefits will be given up; and
d) a reasonable estimate of the amount can be made.

In addition to newly purchased assets and assets with a remaining useful life, an ARO will also apply to:

- Obligations associated with fully amortized tangible capital assets.

- Obligations associated with unrecognized tangible capital assets (including Crown lands.)
- Obligations associated with tangible capital assets no longer in productive use.

AROs exclude:

- Retirement obligations that are not legal obligations;
- Costs related to remediation of contaminated sites, which are covered in PS 3260;
- Costs related to activities necessary to prepare a tangible capital asset for an alternative
- use;
- Costs resulting from an unexpected event such as an unexpected contamination.

AROs must be evaluated and distinguished from other activities including reclamation and remediation. However, if these activities must be performed prior to an entity being able to retire an asset, these activities should be included into the total asset retirement cost.

AROs must be allocated on the same basis as the asset. The obligation and timing of settlement of a retirement obligation as well as the schedule of amortization should be consistent with the underlying component.

AROs must be amortized in a systematic and rational manner.

The full document is public ((https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/services-policies-for-government/policies-procedures/core-policy-manual/procedures/aro-practice-standard.pdf).

APPENDICES

Glossary of Terms

Business entity – treat a business or an organization and its owners as two separately identifiable parties.

Canadian Auditing Standards CAS – are the independent auditor's overall responsibilities when conducting an audit of financial statements. It sets out the overall objectives of the independent auditor and explains the nature and scope of an audit designed to enable the auditor to meet those objectives. The list of Canadian Auditing Standards to be applied in the audit of financial statements and other historical financial information are at www.iasplus.com/en-ca/standards/assurance/canadian-auditing-standards

Conflict of Interest – may be a situation in which leadership / Boards and or staff have an actual or potential interest (usually financial) that may influence or appear to influence the conduct of their official duties. Your organization should have Conflict of Interest policies that defines 'real' or 'perceived' conflict of interest, including relationships of other interested parties. These policies should deter conflict.

Conservatism – the convention of conservatism, also known as the doctrine of prudence in accounting is a policy of anticipating possible future losses but not future gains.

Consistency – the same accounting principle for preparing financials statements over several time periods.

Cost – the cash (or cash equivalent) given up for an asset which includes all costs necessary to get an asset in place and ready for use.

Full Disclosure – all the information necessary for readers to understand those records.

General Ledger – the master set of accounts that summarizes all transactions within the organization. This report is comprised of all the individual accounts needed to record the assets, liabilities, equity, revenue, expense, gain and loss transactions. When there are a lot of transactions, there may be subsidiary ledgers that then feed into the general ledger. The general ledger is used to aggregate information into the financial statements of the organization; commonly it is done automatically with accounting software, or by manually compiling financial statements from the information in a trial balance report.

Generally Accepted Accounting Principles GAAP – provides the framework of broad guidelines, conventions, rules and procedures of accounting. There are different GAAP for Canada than the USA.

Going concern – continuing activity of worry.

Matching – resembles one another – i.e., revenue and expense.

Materiality – a concept or convention within auditing and accounting relating to the importance / significance of an amount, transaction, or discrepancy.

Misstatement – is material when the user of a set of financial statements alters his economic decisions because of the misstatement. Auditors assess the level of material misstatement when developing an audit plan for a client.

Objectivity – that accounting decisions should be made independently of biases and subjective methods and based instead on measurable assessments that can be supported by additional evidence.

Public Sector Accounting Standards PSAS – public sector accounting is an accounting method applied to non-profit pursuing entities in the public sector - including central and local governments, and quasi-governmental special corporations - for which the size of profits does not provide an effective measurement for evaluating performance. Accounting principles for the PSAS are established by the Public Sector Accounting Board. (www.frascanada.ca/en/psab/about)

Reconciliation – an accounting process that uses two sets of records to ensure figures are correct and in agreement. It confirms whether the money leaving an account matches the amount that's been spent and ensures the two are balanced at the end of the recording period. Common reconciliations are bank accounts and credit card statements.

Revenue recognition – An amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services (exchange transactions) or transactions that increase the economic resources of the entity without a direct transfer of goods or services (unilateral or non-exchange transactions).

Risk – the chance of something occurring that can have an impact on achieving desired outcomes.

Risk Management – the term applied to a logical and systematic method of establishing the context, identifying, analyzing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organizations to minimize losses and maximize opportunities.

Risk Registry – a document to catalogue the self-assessment of the risk process.

Time period concept – the time period principle is the concept that a business should report the financial results of its activities over a standard time period, which is usually monthly, quarterly or annually.

Trial Balance – a list of all the general ledger accounts (both revenue and capital) contained in the ledger of the organization. The report ensures that the total of all debits equals the total of all credits, which means that there are no unbalanced journal entries in the accounting system would make it impossible to generate accurate financial statements.

Guide to Preparing for the Audit

When gathering your documents for the audit, use this to guide you with setting up your paper or electronic files to organize the documents.

Folder Headings for Statement of Financial Position Accounts Sub Tabs or Categories

7.1-Financial Assets
- Cash and cash equivalents
- Replacement reserve – CMHC
- Accounts receivable
- Portfolio investments
- Investments
- Due to related entities

7.2-Non-financial Assets
- Tangible Capital Assets
- Prepaid

7.3-Liabilities
- Bank Loans
- Accounts Payable and Accrued Liabilities
- Deferred Revenue
- Long-term debt

8.1 Revenue
- ISC – funding
- ISC – recovery
- Province/Territory
- Investment Income
- Net Income (loss) from Government Business Enterprises
- Other

8.2 Expenses
- Band Governance
- Community Infrastructure
- Health
- Education
- Social Development
- Economic Development
- Housing
- Business Enterprises
- Ottawa Trust
- Tangible Capital Assets

Inclusion in Electronic Folders – Financial Assets

FINANCIAL ASSETS

Cash and Cash Equivalents

Include:	Procedures:
• Bank reconciliations and statement copies • Include April and May	• Trace that items outstanding at year end clear within the next month or two

• Ottawa Trust Fund Statement	• Reference the clearance date on reconciliations
	• Reverse stale-dated items
	• Test petty cash reimbursements monthly
	• Use pre-numbered Petty Cash Vouchers and have custodian sign off on request for reimbursement

Bank Reconciliation Notes

Generally, auditors will trace any outstanding cheques to subsequent bank statements to verify payment.

Consider:
- Noting the date that cheques cleared on your outstanding cheque list and reference payment of same to subsequent bank statements – your bank statement and accounting software likely already provides this information.
- This will expedite the bank reconciliation verification process.

Replacement Reserve – CMHC

General:	Procedure:
• A fund maintained under the terms of an operating agreement with funds transferred on a monthly or annual basis to a replacement reserve account for capital items	• Consider providing your auditors with a replacement reserve expense schedule with allocation amounts or deposited amounts
• These funds are restricted, are to be held in a separate bank account, and invested in approved instruments with interest included in the reserve fund	

Accounts Receivable

Include:	Procedures:
• Aged trial balance as at March 31	• Trace actual receipt of funds to subsequent bank statements
• Aged trial balances as at the equivalent to the field work date - i.e.Covid-19	• Invoices not paid or entered into your sub ledger or GL by March 31
• Allowance for doubtful accounts list	o record as either an accrued receivable (for reversal) or accounts receivable after reconciling your control account
• Funding receivable documents	
• GST returns	
General:	

• Payroll Advances • For CRA purposes Income is subject to Source Deductions on a "cash basis" i.e., when received	• Consider setting up ISC Funding Agreements as account receivables amounts

Portfolio Investments

Include:	Procedure:
• Copies of monthly statements indicating fair market value of the investment portfolio.	• Ensure that general ledger balances are updated on a monthly basis and agree to the statements provided by the investment advisor • Consider recording the fair market value of the portfolio prior to providing your auditor with the final trial balance

Investments (including advances)

General:	Procedure:
• Government Business Enterprises • Government Business Partnerships • Other	Prepare listing of entities including: • Scanned incorporation documents, agreements and relevant legal agreements • Prepare inter entity reconciliations with GL listings of reciprocal accounts from the entities General Ledger • Distinguish between advances and cost of investment in the related entity • Provide ownership percentage whenever possible • Financial statements if prepared by another auditor

Prepaid

Include:	Procedure:
• Copies of insurance policies, rental agreements and related documents to verify amounts	• Prepare prepaid schedule or working paper • Record adjustments to expense

Tangible Capital Assets

Include:	Procedures:
• Purchase invoices	• Prepare a Capital Asset schedule

• Invoices for assets sold
 	
General:
 	
• Capitalizing such purchases or disbursements by recording the amounts directly to a tangible capital asset account (i.e., debiting Tangible Capital Assets and crediting the Bank) does not fulfil –
 	
• Annual Audited [Consolidated] Financial Statements reporting requirement to provide either:
 	
• Annual Audited Schedule of Revenue and Expenses package, or
 	
• Annual Unaudited Schedule of Revenue and Expenses
 	
• PSAB 3150
 	
    o .06 Governments need to present information about the complete stock of their tangible capital assets and amortization in the financial statements to demonstrate stewardship and the cost of using those assets to deliver programs and provide services
 	
    o .22 The cost, less any residual value, of a tangible capital asset with a limited life should be amortized over its useful life in a rational and systematic manner appropriate to its nature and use by the government.
	• Catalogue your assets for internal control purposes
	
	• Record asset additions and deletions as well as amortization
	
	• Consider the use of bar coding and regular physical inventory testing
	
	• Request auditor working papers
	
	• Contact ISC for listing of infrastructure assets
	
	If you are receiving tangible capital asset funding from ISC you need to report –
	
	• receipt of funding, and
	
	• disbursement of same i.e., Revenue and Expenses Schedules (Annex A)
	
	• You also need to capitalize same by debiting a Tangible Capital Asset account to disclose the asset on your Statement of Financial Position and
	
	• crediting an appropriate Equity or Accumulated Surplus Account for the same amount

LIABILITIES

Accounts Payable and Accrued Liabilities

Include:	Procedure:

- Aged trial balance as of March 31st
- Aged trial balance as of the equivalent of the field work date- i.e.covid-19
- April + May accounts payable files
- Supporting documents for accrued payables
 	
General:
- Gently remind managers:
   o to highlight invoices (dated or received after March 31) as to applicable year
   o provide same by May 31
	- Ensure previous year's or month's accruals are reversed
	- Reconcile supplier statements to A/P sub ledger balances
	- Accounts payable invoices not paid or entered into your sub ledger or GL by March 31,
	   o need to be recorded as an accrued payable (for reversal)
	- Do not post accruals to control account - set up separate account – use "R" for reversal
	- A smooth cut-off will speed up the audit process

Payroll Liabilities

Include:	Procedure:
- PD7A for the month of March - WCB statement - Benefit provider's statements – pension/medical - Payroll reports for last pay period in March - Payroll reports for last pay period in December - For T4 reconciliation to December 31 - Sick leave schedule	- Wages payable calculation - Reconcile T4 supplemental to General Ledger - Schedule of vacation pay payable and sick leave

Bank Loans

Include:	Procedure:
- Signed loan documents - Detailed listing of loan payments - Amortization if loan is a term loan as opposed to revolving loan - Confirmation of loan interest paid	- Adjust loan interest paid or payable to appropriate account - Reconciliation to loan statement

Deferred Revenue

Include:	Procedure:
• ISC Funding confirmation	• Schedule of deferred revenue • Set and Fixed funding referenced by detailed note • Include services code if available

Long-Term Debt

Include:	Procedure:
• Loan/mortgage amortization schedules and statements • Loan/mortgage contracts • CMHC loan confirmation	• Reallocate interest charges from liability accounts in order to confirm principal amount to amortization schedule • For note disclosure – summary of interest rates, security, terms of repayment, etc. • Current portion of long-term debt • Principal payments over next five years

REVENUES

ISC

Include:	Procedure:
• Confirmation • Funding Agreements	• Completion of Fixed funding reconciliations as provided in the takeaway package • Accrue any amounts receivable if not treated as an accounts receivable for control purposes

Provincial and Other

Include:	Procedure:
• Confirmation • Funding Agreements	• Accrue any amounts receivable if not treated as an accounts receivable for control purposes

Investment Income

Include:	Procedure:
• Copies of monthly statements indicating fair market value of portfolio	• Complete reconciliation of investment account

EXPENSES

Expense Sub-Folders

Include:	Procedures:
Include: • Signed copies of large contracts / agreements for expenses • T4 summary and T4 slips for the prior calendar year • Insurance policies for vehicles • Social assistance – master lists /pay lists for the year • Invoice copies of material or large expenditure • Confirm dollar value of invoices the auditor would like copied or scanned for field visit General: • Where to find variances information • Examine the GL to see if there are allocation errors • Discuss with department heads • Action • Bring to Council's attention for possible action • Amend the budget for any corrective action • Document the findings and actions for your auditors	Procedures: • Analysis of specific accounts • Repair and maintenance – Large dollar amounts for capitalization • Salaries and wages - Large dollar amounts in various accounts • Provide evidence that you do an analysis of actual-to-budget variances

Payroll – General Information

It is difficult for an employer to fire an employee for cause if there is nothing in the employee's permanent record to support such a decision. Consider documenting performance evaluations as they communicate work to be done and results to be attained. Keep the files up-to-date with documented and detailed information on the employee's performance.

Employee permanent files can offer protection to your organization in case of a contested termination.

What is Personal Information?

Personal information is information that reveals something of a personal nature about the individual – examples are:

- Home address
- Home telephone number
- Age, date of birth, gender
- Blood type
- Ethnicity, nation of origin, colour of skin
- Religious beliefs
- Health care / medical history
- Marital status

- Social Insurance Number
- Credit Card Number
- Criminal records, fingerprints
- Curriculum vitae
- Educational history
- Financial history
- Employment history
- EXACT salary

What is not considered Personal Information?

- Work address
- Work telephone number, including business cell phone number
- Work fax number
- Details of employment contract
- Job responsibilities

- Salary range
- Classification of job position
- Job title
- Work related correspondence
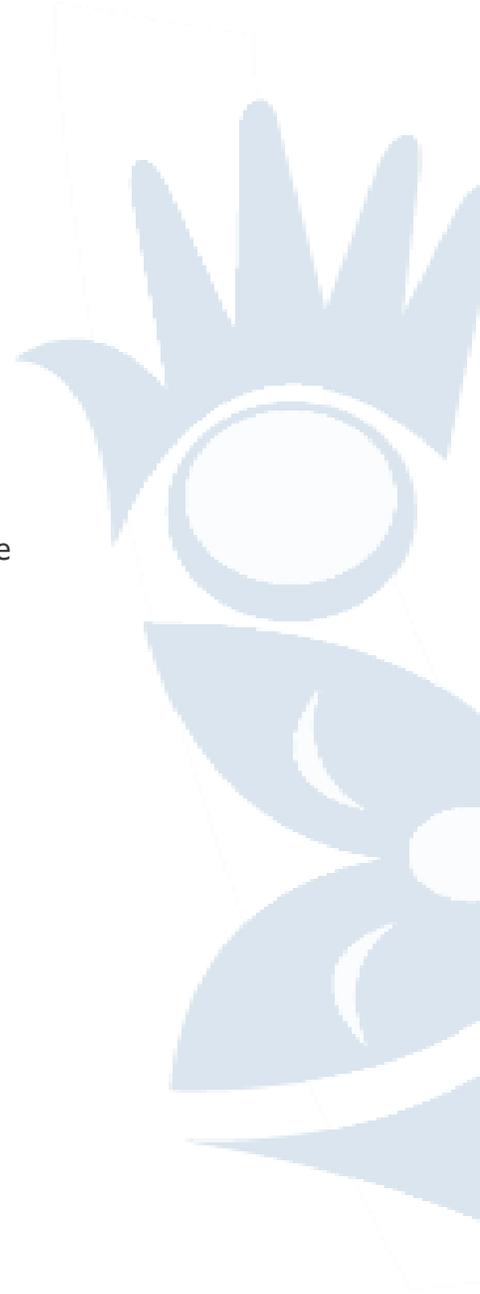
Risk Themes

Risk Themes help guide your conversations on your organization's risk and can be used to populate your risk registry. Use the list below to talk through the risk potential.

Risk Management Theme	General description of why it is important	Example of why it may be important to you	Can include consideration of risks related to:
Financial Management	It is vital to have the right level of controls in place to manage your organization and community's finances.	Lack of effective financial management will limit our ability to become independent	Investments, policies and procedures, fraud, risk management, decision making
Skills and Capacity	Every community needs to grow its capacity and invest in the skills needed to move that community forward.	Without skills and capacity, we will not be able to manage our services and improve our future	Succession planning, training, traditional vs non-traditional training, leadership
Governance	Decision making and operational and financial management has to be underpinned by robust governance procedures, policies and controls.	Without effective and transparent governance, we will not be able to prioritize activities and build a strong Nation	FAL, leadership, strategic direction, decision making, transparency
Stability and Inter-Government Relations	Every community needs to have stable leadership and needs to interact with other governments in a consistent and effective manner.	Without positive and effective relationships with partners and other governments, we cannot grow economically.	Partner relations, reputation, agreements, own-source revenue
Land Protection and Environment	The land and its protection are part of any First Nations community and the balance between protection and opportunity is one that every successful First Nation needs to consider.	If we do not protect our land, we will not have resources for future generations.	Treaties, sustainability, stewardship, access to traditional territories, contamination, hazards, species at risk
Identity and Culture	Identity and culture define what makes each community and every member special. Without them, First Nations would lose their communities and their unique perspective.	Without a strong connection to language and culture, we will not be able to evolve through a foundation in identity.	Ethics, leadership, language and culture, traditional practices, 7th generation, values

Risk Management Theme	General description of why it is important	Example of why it may be important to you	Can include consideration of risks related to:
Economic Development	Economic development is essential to develop communities and provide opportunity, jobs and funding to First Nations organizations.	Without economic development, we will not be able to become self-determined/independent.	Investments, job creation, title and rights, wealth creation
Membership and Community Engagement and Communications	Every community needs to invest in informing and engaging with their members, who need to interact with decisions that shape their future and essential services.	Without clear and transparent engagement with the community, we will not be able to execute on our strategic plan.	Communication, engagement, transparency, trust, ethics and values, buy-in
Infrastructure	Infrastructure supports all services and programs - without the right infrastructure communities may struggle to deliver effective services.	Without maintaining our infrastructure, we will create significant safety hazards and funding allocation.	Capital asset plan, maintenance, hazards, prioritization, community growth
Health and Safety	Health and safety of every community is paramount to the long-term future of each community.	Without policies and procedures that guide health and safety, we will not have a healthy nation: spiritual, mental, physical, social and emotional.	Liabilities, injury and hazards, emergency preparedness, pandemic
Service Delivery	The delivery of services is key to the strength of each community, especially those with significant health or social pressures.	Without effective service delivery, we will not have members who are able to contribute to our vision.	Consistency of services, access, traditional vs mainstream
Geographic Opportunity and Accessibility	Some communities struggle to attract and keep their members on reserve, especially when there are more opportunities in other geographies, be that local urban centers or further afield.	If we do not address our location in North America, we will lose our members.	Remoteness, members leaving, decline in wages

Minimize the Risk of a Cyber-Attack on your Computer Systems

1. **CREATE STRONG PASSWORDS** – Don't use the same password over and over, and don't use one that is easy to guess. The longer your password the better, because it's more difficult for a cyber-criminal to hack. Use a minimum of 12 characters with numeric, sign and alpha characters (for example, Vancouverbc1 password = vAnc0uveRbC!)

   Make sure you store your passwords safely. If you want to store them manually, file them somewhere away from your computer. Write down a clue rather than the actual password as another protective measure. Downloading a password management program is a secure way to store your passwords.

2. **LOG-OFF** – Before you leave your computer or devices unattended for more than a few minutes, take a few seconds to log-off to protect your information.

3. **UPDATE SYSTEMS** – To protect your computer, regularly updating your operating system.

4. **REGULAR BACKUPS** – Make backup copies of all-important business data such as financial information, word documents, electronic copies of legal documents, databases, and member account information. Consider the "cloud" for external backups and provide your auditor with a backup copy of your General ledger. Use automatically backup functions on daily basis.

5. **LIMIT EMPLOYEE ACCESS** – Limit your critical data access to those who truly need it to do their jobs. Require employees to have unique passwords that are changed at least every 90 days. Don't allow any employee to install a software program without your permission.

6. **SERVER ACCESS SYSTEMS** – Schedule Micro soft Disk Clean and Disk Defragmenter programs to run daily on all server access systems, particularly lap top systems.

7. **EXTERNAL SERVER ACCESS** – Limit external or Wireless access to main server directories using enquiry features only when possible. Maintain an updated list of external users with regular renewal dates and delete all past employees.

8. **SERVERS** – Maintain a separate room for servers, clear of water pipes, with limited access by employees following the Least Privilege principle. (Least Privilege – Configuration to the lowest privilege level necessary to execute legitimate and authorized business applications.)

9. **DOWNLOAD** "An Introduction to the Cyber Threat Environment" the Canadian Centre for Cyber Security - https://www.cyber.gc.ca/en/guidance/introduction-cyber-threat-environment

Audit Preparation Checklist for the Fiscal Year-End

Initial audit document assembly and preparation – required for the audit planning purposes

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
SECTION A – AUDIT PLANNING				
To Do:				
Assemble all Governance, Information Management, Finance and Human Resources Policies developed or being developed by the Nation	✓			
Assemble all Risk Assessment documents including risk registry – if applicable	✓			
Assemble all Audit committee or management notations related to previous years Auditors Findings Report or Management Letter recommendations	✓			
Complete - FAL / FAB Compliance Checklist – if applicable				
Provide to Auditors:				
Flow Charts of organization structures (if any change)	✓			
All policy and procedures manuals	✓			
All risk assessment initiatives commenced and completed during the year	✓			
Comments or initiatives related to Audit Management Letter or Findings Report	✓			
Completed - FAL / FAB Compliance Checklist with provisional dates related to Post Year end requirements				
SECTION B – REVIEW AND CONFIRM OPENING BALANCES				
To do:				
Reconcile current year opening balances to prior year's final balances with all discrepancies noted.	✓			
Reverse all accounts payable and receivable accrued balances set up at March 31, 2021 by your accounting department or auditors	✓			
Compare previous year's chart of accounts with current year noting additions or deletions	✓			
Provide to auditors:	✓			
Listing of new general ledger account numbers and/or projects	✓			
Listing of Journal Entries - JE	✓			
List of Bankers, Lawyers and consultants noting any changes during the year (include name, address, phone numbers and contact person)	✓			
SECTION C – FIELD WORK AND COMPLETION				
1) CONFIRMATION OF FINALIZATION OF RECORDS				

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
To Do:				
Reconcile current year opening balances to prior year's final balances with all discrepancies noted.	✔			
Zero out/adjust all cash clearing accounts	✔			
Zero out/adjust all AP/Payroll/AR clearing accounts	✔			
Advise auditors that records are ready for importing	✔			
Provide to Auditors:				
Electronic copy of General Ledger – GL	✔	✔		
Listing of Journal Entries – JE	✔	✔		
List of Bankers, Lawyers and consultants noting any changes during the year (include name, address, phone numbers and contact person)	✔	✔		
2) OPERATING BUDGET				
To Do:				
Prepare operating budgets by Fund/Program for the fiscal year ended	✔			
Provide to Auditors:				
Access to GL budget details or electronic copy (with GL codes)		✔		
3) MINUTES OF THE CHIEF AND COUNCIL MEETINGS				
To Do:				
Assemble electronically in date order	✔			
Provide to Auditors:				
Minutes of meetings during and subsequent to the year end		✔	✔	
4) ISC AUDIT REVIEW LETTER				
To Do:				
Cross reference INAC Service Codes to GL Accounts	✔			
Prepare "Deferred Revenue Summary" working paper provided	✔			
Prepare Deferred Revenue entry for Set and Fixed Funds	✔			
Provide to Auditors:				
Copy of Review Letter for the prior fiscal year		✔		
"Deferred Revenue Summary" working paper as provided		✔	✔	
Copy of Deferred Revenue entries		✔	✔	
5) CMHC HOUSING				
To Do:				
Top up underfunded balances per current year call letter	✔			
Record annual replacement reserve allocation per call letter	✔			
Reconcile Minimum Revenue Contribution (MRC) to call letter	✔			

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
Review items and make copies of invoices for qualified capital items in replacement reserve fund	✓			
Provide to Auditors:				
Copy of call letter to auditor for the fiscal year being audited			✓	
Copy of schedule of qualified capital items to replacement reserve, with invoices			✓	
Copy of journal entries			✓	
6) CASH, BANK AND MARKETABLE SECURITIES				
To Do:				
Clear all stale-dated cheques	✓			
Reconcile bank balances to GL balances *with Discrepancies noted*	✓			
Record Ottawa trust fund activities for the entire year and reconcile to statements provided	✓			
Record all term deposit/investment activities for the year and reconcile to statements provided	✓			
List Bank accounts opened and closed during the year, if applicable	✓			
Provide to Auditors:				
List Bank accounts opened and closed during the year, if applicable		✓		
Monthly reconciliations and bank statements for the fiscal year			✓	
Monthly reconciliations of bank statements subsequent to the fiscal year			✓	
Reconciliation of the Ottawa trust fund statement for the fiscal year			✓	
Term deposit / Investment Statements to GL Balances			✓	
Reconcile bank balances to GL balances with Discrepancies noted			✓	
7) ACCOUNTS RECEIVABLE				
To Do:				
Review all accrued receivable or accounts receivable accounts to ensure reversal of all opening balances	✓			
Reconcile aged trial balance to GL control account balance.	✓			
Review collectability of all non-current AR balances with notations related to collectability.	✓			
Provide to Auditors:				
Reconciliation of detailed account listings to GL control account			✓	
Listing of doubtful accounts			✓	
Listing of AR written off during the year			✓	
Documents related to any funding receivable balances			✓	

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
GST Public Service Rebate return			✓	
8) NOTE RECEIVABLE				
To Do:				
Reconcile notes receivable to source documents	✓			
Update interest calculation worksheet and recorded interest receivable	✓			
Provide to Auditors:				
Notes and interest receivable reconciliation			✓	
Electronic or paper copies of said notes			✓	
9) PREPAID ITEMS				
To Do:				
Record prepaid items	✓			
Prepare detailed listing of prepaid items or deposits for the fiscal year	✓			
Provide to Auditors:				
Schedule of prepaid items		✓	✓	
Supporting documents such as insurance policies			✓	
10) DUE TO/FROM RELATED ENTITIES				
To Do:				
Obtain detail GL print outs of the related entities' accounts	✓			
Reconcile GL balances to the books of the related entity	✓			
Provide to Auditors:				
Reconciliation of account balances			✓	
11) INVESTMENTS – RELATED ENTITIES				
To Do:				
Complete records of all related entities	✓			
Provide to Auditors:				
Financial statements of own source revenue corporations, partnerships or joint ventures		✓		
GL and Journal entries of all related entities			✓	
12) TANGIBLE CAPITAL ASSETS				
To Do:				
Copy or scan all Invoices, in excess of $2,500, related to Tangible Capital Asset purchases in the year	✓			
Prepare a listing of all Tangible Capital Assets sold during the year along with scanned or paper copies of invoices rendered	✓			

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
Update or implementation a Capital Asset Registry	✓			
Provide to Auditors:				
Updated capital asset schedule/registry with additions and disposals during the year			✓	
Invoices in excess of $2,500			✓	
Amortization calculation for the fiscal year			✓	
Comments related to assets impaired i.e., decreased in value			✓	
13) ACCOUNTS PAYABLE/ACCRUED LIABILITIES				
To Do:				
Review all accrued liability or accounts payable accounts to ensure reversal of all opening balances	✓			
Reconcile the aged trial balance to GL control account balance.	✓			
Review status of all non-current items along with possible notes related to disputed balances.	✓			
Review status of other short-term liability accounts with balances carried forward from prior year	✓			
Provide to Auditors:				
Schedule/Invoice copies supporting accrued expenses payable			✓	
Summary of invoices received subsequent to March 31 including GL codings			✓	
April and May accounts payable files			✓	
Status of non-current items			✓	
14) PAYROLL LIABILITIES				
To Do:				
Accrue March payroll liabilities, vacation and WCB	✓			
Reconcile all liabilities to source statements (i.e., employee benefit statements & CRA source deductions - PD7A)	✓			
Provide to Auditors:				
Schedules as at March 31: Wages payable			✓	
Vacation pay payable			✓	
Sick leave payable			✓	
Benefit providers' statements i.e., pension/medical			✓	
T4 Summary for previous calendar year			✓	
Work Safe filing as of December			✓	
PD7A - Payroll remittance form			✓	
Listing of employees who left and were hired during the year			✓	
15) DEFERRED REVENUE				

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
To Do:				
Review program funds for surpluses and risk of claw backs	✓			
Record current year closing deferred revenue	✓			
Provide to Auditors:				
Schedule of deferred revenue for the current year			✓	
16) LONG-TERM DEBT / BANK LOANS				
To Do:				
Reconcile GL balances to loan statement balances as of the year-end	✓			
Provide to Auditors:				
Loan statement as of March 31, 2017, if applicable			✓	
Loan agreements			✓	
Amortization schedules, if applicable			✓	
Term renewal or payouts during and/or subsequent to year-end			✓	
CMHC loan confirmation		✓	✓	
17) REVENUE – ISC				
To Do:				
Ensure each fund has been recorded in a separate program or cost centre	✓			
Reconcile total ISC revenue recorded in the various GL fund codes to the ISC confirmation	✓			
Provide to Auditors:				
Funding confirmation for the year			✓	
New/updated funding agreements for the year			✓	
Classified programs in accordance with Annex A summary (non ISC as well)	✓		✓	
18) REVENUE – PROVINCIAL / TERRITORIAL				
To Do:				
Ensure funding is allocated to correct program and separated from ISC revenue	✓			
Provide to Auditors:				
Reconciled revenue for the programs to the funding agreements			✓	
Funding agreements and confirmations			✓	
19) REVENUE – OTHER				
To Do:				
Ensure funding is allocated to correct program and separated from ISC revenue	✓			

	Interim Preparation	Remote audit process – no field work	Finalization of audit process	NOTES
Provide to Auditors:				
Funding agreements and confirmations		✓	✓	
20) EXPENSES				
To Do:				
Maintain a year-to-date log of notations related to budget variances	✓			
Analyze expenses at March 31, 2020 noting budget variances	✓			
Maintain minutes of Finance/Audit committee meetings related to budget variances	✓			
Provide to Auditors:				
Any notations – i.e., minutes related to budget variances			✓	
Contracts/agreements			✓	
T4 Summary for the previous calendar year			✓	
Please note any expenses that are out of the normal course of operations in the year			✓	
Education – Student listing and Allowance schedule			✓	
Copies of lease contracts - equipment and premises			✓	
Social assistance – Master list /pay list for the fiscal year			✓	

Revised October 7, 2019

NOTES:

This list may not be all inclusive as further documents may be requested during the Auditor communications visit in lieu of a field work visit due to Covid-19

Courtesy of RHN, CPA Inc., 200 – 2000 West 12th Avenue, Vancouver, BC   V6J 2G2
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Information Security Risk Assessment Checklist

Information security is as important to First Nation Organizations as it is to other Governments. Increased access to information and services has been realized as each First Nation increasingly moves activities to the Internet. However, as more information and services become available and are dependent on Internet-based technology, the risks of potential liability and costs increase as well. First Nation Organizations play a unique role in their communities as the managers and caretakers of Band funding programs, member information and own source revenue financial resources. These systems, applications, and databases house information which at times is subject to controls and protections by law. Risk assessment tools, like this one, can assist a First Nation Organization in determining the gaps in its information security program and provide guidance and direction for improvement.

This tool should be used in conjunction with the following steps:

1. Download reference document "An Introduction to the Cyber Threat Environment" the Canadian Centre for Cyber Security - https://www.cyber.gc.ca/en/guidance/introduction-cyber-threat-environment
2. This Checklist should be completed by the finance and audit committee, in cooperation with the Chief and Council. A response to the items in each section should be prepared to accurately reflect the "point in time" picture of the Nation's security
3. Identify the levels of risk associated with any of the items that result in a "no" response.
4. Develop an appropriate action plan to mitigate the identified risk.
5. Assign roles and responsibilities for implementing and monitoring timely completion of the action plan.

Information Security Risk Assessment Checklist

	Yes/No
A. Organizational and Management Practices	
1. <u>Security Program Governance</u> – Executive Management has assigned roles and responsibilities for information security across the various entities. This includes, but is not limited to, the following: documenting, disseminating, and periodically updating a formal information security program that addresses purpose, scope, roles, responsibilities, and the implementation of policies, standards, and procedures.	
2. <u>Confidentiality Agreements</u> – Implement confidentiality or non-disclosure agreements with contractors and external entities to ensure the Nation's needs for protection of classified information is met.	
3. <u>Risk Assessments</u> – A review process at planned intervals is implemented to ensure the continuing suitability and effectiveness of the approach to managing information security.	
4. <u>System Security</u> – A formal document that provides an overview of the security requirements for Band information systems and describes the security controls in place (or planned) for meeting those requirements is maintained.	
5. <u>System Certification</u> – An assessment of the security controls in place for existing systems and those planned for new systems is conducted at least once each year.	
6. <u>Configuration Change Control</u> – Changes made to information systems are controlled and documented. The changes are reviewed and approved in accordance with written policy and procedures, including a process for emergency changes.	
7. <u>Security Categorization</u> – Procedures to classify systems and information that is stored, processed, shared, or transmitted with respect to the type of data (e.g., confidential or sensitive) and its value to critical business functions are in place.	
B. Personnel Practices	
1. <u>Security Awareness</u> – Training is provided to all employees on an annual basis that addresses acceptable use and good computing practices for systems they are authorized to access. Content of training should include privacy requirements, virus protection, incident reporting, Internet use, notification to staff about monitoring activities, password requirements, and consequences of legal and policy violations.	
2. <u>Human Resources Security</u> – Policies and procedures that address purpose, scope, roles, responsibilities, and compliance to support personnel security requirements, such as access rights, disciplinary process, etc. are in place.	
3. <u>Position Categorization</u> – Procedures for identifying system access needs by job function and screening criteria for individuals performing those functions are in place.	

C. Data Security Practices	64
1. <u>Data Classification</u> – Policies and processes to classify information in terms of its value, legal requirements, sensitivity, and criticality to the Band are in place.	
2. <u>Access Controls</u> – Policies and procedures are in place for appropriate levels of access to computer assets. Access controls include, but are not limited to:	
• Password management, including the use of strong passwords, periodic password change, and restriction of sharing access and/or passwords. System access is authorized according to business need and password files are not stored in clear text or are otherwise adequately protected.	
• Wireless access restrictions are in place, with organizational control over access points, prohibition and monitoring against rogue access points, appropriate configuration of wireless routers and user devices, and policy, procedure, and training for technical staff and users are in place.	
• Secure remote access procedures and policies are in place, and are known and followed by users.	
• Mobile and portable systems and their data are protected through adequate security measures, such as encryption and secure passwords, and physical security, such as storing devices in a secure location and using cable locking devices.	
• The tracking of access and authorities, including periodic audits of controls and privileges is in place.	
• Networks challenge access requests (both user and system levels) and authenticate the requester prior to granting access.	
3. <u>Least Privilege</u> – Configuration to the lowest privilege level necessary to execute legitimate and authorized business applications is implemented.	
4. <u>Data Storage and Portable Media Protection</u> – Policies and procedures to protect data on electronic storage media such as USB drives. Procedures include labels on media to show sensitivity levels and handling requirements, rotation, retention and archival schedules, and appropriate destruction/disposal of media and data.	
D. Information Integrity Practices	
1. <u>Identification and Authentication</u> – Policies and procedures for identification and authentication to address roles and responsibilities, and compliance standards are in place.	
2. <u>User Identification and Authentication (typically user id and password)</u> – Information systems/applications uniquely identify and authenticate users when it is appropriate to do so.	
3. <u>Device Identification and Authentication</u> – Information systems/applications identify and authenticate specific devices before establishing a connection with them.	
4. <u>System and Information Integrity</u> – Policies and procedures for system and information integrity to address roles, responsibilities, and compliance standards are in place.	
5. <u>Intrusion Detection</u> – Tools and techniques are utilized to monitor intrusion events, detect attacks, and provide identification of unauthorized system use.	
6. <u>Security Alerts and Advisories</u> – The appropriate internal staff members receive security alerts/advisories on a regular basis and take appropriate actions in response to them.	

7. <u>Secure System Configuration</u> – The security settings on systems are configured to be appropriately restrictive while still supporting operational requirements. Non-essential services are disabled or removed when their use is not necessary as to eliminate unnecessary risk.	
8. <u>Software and Information Integrity</u> – Information systems/applications detect and protect against unauthorized changes to software and information.	
9. <u>Information Input Accuracy, Completeness, and Validity</u> – Information systems/applications check data inputs for accuracy, completeness, and validity.	
E. Software Integrity Practices	
1. <u>System and Services Acquisition</u> – Policies and procedures for system and services acquisition are in place to address roles and responsibilities, and processes for compliance checking.	
2. <u>Software Integrity Practices</u> – Policies and procedures associated with system and services acquisition and product acceptance are in place.	
• User Installed Software – An explicit policy governing the downloading and installation of software by users is in place.	
• Outsourced Information System Services – Controls or validation measures to ensure that third-party providers of information system services employ adequate security controls in accordance with applicable laws, policies and established service level agreements are in place	
• Developer Security Testing – A security test and evaluation plan is in place, implemented, and documents the results. Security test results may be used in support of the security certification process for the delivered information system.	
F. Personal Computer Security Practices – Personal computing devices include desktops, laptops, notebooks, tablets, Personal Device Assistants (PDA), and other mobile devices.	
1. <u>Device Hardening</u> – Operating system and application level updates, are applied as soon as they become available.	
2. <u>Lock-Out for Inactive Computing Devices</u> – The automatic locking of the computing device after a period of inactivity is enforced.	
3. <u>Data Storage</u> – Data that needs additional protection is stored on pre-defined servers, rather than on computing devices, for both data protection and backup/recovery reasons. Confidential, sensitive, and/or personal information is not stored on computing devices.	

Working Papers and Schedules

Client: _____

Acct. Description: _____

Acct. Number: _____

Balance per General ledger – March 31, 2024

Description	JE #	Debit	Credit	Balance
Beginning Balance: or Trial Balance before adjustments				
List description of adjustments here				
Total Adjustments				
Adjusted Balance – March 31, 2024				$

Balance Represents:	Debit	Credit	Balance
Per attached or detailed summary -			
Adjusted Balance – March 31, 2024			$

Notes:

Suspicious Signatures – Things to consider

*A **Signature forgery** refers to the act of falsely replicating the **signature** of another person.*

Some symptoms of a forged signature –

- will look odd;
- not the same size as the individual's actual comparative signature i.e. may-be longer or shorter than the original;
- fine yet distinguishable markings that indicate shakiness in the writing and happen when the forger attempts to copy a signature or writing style;
- Uneven writing speed and pen pressure;
- Hesitations or point in the actual lines;
- Unusual pen lifts, where the forger continually checks his/her work; and
- Patching and retouching, fixing or adding marks; as well as blunt beginnings and endings

Steps to take –

- Compare suspected signature to actual signature referencing the above "Symptoms of Forged Signature";
- Use a photographer's magnifying glass as pictured below to review the signature;

- Make notations of your findings including the date and times observed; and
- Consider engaging a "Forensic Handwriting Analyst or Document Examiner" if you are considering any further action including possible litigation.

In summary, this is only a brief overview of "suspicious signatures" to assist you, with the ever- increasing risk of _fraudulently_ conveyed documents..

Victim of a forged cheque? What to know

Immediate Steps to be taken

- Contact the Bank or Credit Union Manager and relay the facts related to the forgery,
- Contact your accountant or legal advisor and relay the facts related to the forgery, and
- Commence a timeline document as follows:

Date	Time	Individuals contacted	Details Discussed

Who is responsible for payment?

- "The bank which negotiates the forged cheque that removes monies from your bank account ***is strictly liable for that act*** and for the monies you lost because of the bank's transacting the forged cheque……

  Take-away: review your monthly statements! Mistakes that the bank makes are likely not recoverable if you didn't discover it yourself within 30 days."

  Source: *extracts from the Aug 26, 2019 article by Edward Conway* **https://canliiconnects.org/en/commentaries/67400**

Products or Technology currently available to mitigate Forged Cheques

- *Positive Pay and related services*

  How does it work?
  An entity issues cheques. They then transmit an electronic file in a prescribed file format to the bank that contains a record of all cheques currently issued. The bank will only pay those cheques included in the file that match all of the issue criteria (cheque number, date, amount and sometimes payee). Most banks will then send an exception list to the customer that contains cheques waiting to pay that were not in any "positive pay" file. This gives the customer the opportunity to pay, not pay or hold the exception cheque(s).

- *Positive pay*

  o prevents fraud from altered cheques, cheques printed elsewhere, cheques from stolen cheque stock and even valid issued cheques that are lost or stolen, and
  o inhibits internal fraud in that it adds additional levels of security that reduce each employee's role in the cheque writing process.

- ***Online Banking / EFT (Electronic Funds Transfer)***

  The most effective way to prevent cheque fraud is to stop using cheques but that is not always an option.

  Transferring money directly from one account to another is more secure and, depending on your staffing levels, may be more efficient. However, online banking and EFT do not yet give businesses enough access to payees or payors unless both are members of the same bank (or bank system) and the cost to conduct such transactions is still quite high.

List of ways that your entity could be hit by cheque fraud

- ***Stolen issued cheques***
  Mail theft, your cheques are at risk from the moment they are printed, until the moment they are cashed.

- ***Cheque alteration***
  This is most common with payroll cheques. A cheque for two hundred dollars could become a cheque for two thousand dollars.

- ***Copying cheques***
  Changing various information on a cheque and making a color copy has also proven easy and effective.

- ***Stolen cheque materials***
  Pre-printed cheque stock could almost be considered "same as cash." Entities should be encouraged not to use pre-printed cheque stock (often with the signature also pre-printed).

- ***Home printing***
  It has been said that a computer, laser printer and a criminal mind is a license to print money in all currencies.

- ***Unauthorized printing within your company***
  Internal cheque fraud is as great a threat as external cheque fraud. Employees who have access to all aspects of accounting and cheque printing have plenty of opportunity. Other employees who have access to the cheque printer also carry a risk factor.

List of things that your entity could do to prevent cheque fraud -

- ***Don't use pre-printed cheque stock***
  Pre-printed cheque stock makes fraud as easy as filling in the blanks. Use blank cheque stock in conjunction with available micro laser cheque printing software.

- ***Use tightly controlled cheque printing procedures***
  Ensure that employees not involved in the accounting process do not have access to cheque printing equipment. *Your entity's printer should be different from your cheque printer.*

- ***Checks and balances***
  If you think there is a risk of internal cheque fraud, make sure that one person does not have access to the entire process. Fragment the procedures so that a person's activities (i.e. segregation of duties) will only affect part of the process.

- ***Use a Positive Pay***
  Positive Pay is currently the most effective weapon against cheque fraud. The bank only pays the cheques listed in your Positive Pay file. Unauthorized cheques are not paid, and you are notified of their existence.

- ***Write fewer cheques by using automatic deposits or electronic funds transfers***
  While many entities feel that the risk of cheque fraud loss is not great enough to necessitate any action, they may fail to realize that a single incidence of cheque fraud would likely cost more than the cost of the basic fraud prevention measures that would prevent it.

- *General procedures*

  - Always store your cheques, deposit slips, bank statements and other documents in a secure location,
  - Shred cancelled cheques and old statements, or store under the same security as your un-issued cheques,
  - Reconcile your bank statement daily or through online banking,
  - Ensure your cheque order is complete and there are no missing cheques,
  - Report missing cheques to your bank/cheque supplier immediately,
  - Don't leave blank spaces on the payee and amount lines,
  - Use dark ink that can't be easily erased or covered over, and
  - Have different accounts for different functions, for example, one for payroll, one for accounts payable, cheque issuance etc. for easier reconciliation.

The Association of Certified Fraud Examiners advises organizations of any size to take the following initial measures to combat fraud:

1. **Be proactive**.
   Establish and maintain internal controls specifically designed to prevent and detect fraud. Adopt a code of ethics for management and employees. Set a tone at the top that the company will not tolerate any unethical behavior. Implement an employee reporting system, such as an anonymous hotline, to help uncover fraud.

2. **Establish hiring procedures**.
   Every company, regardless of size or industry, can benefit from formal employment guidelines. When hiring staff, conduct thorough background investigations. Check educational, credit and employment history (as allowed by law), as well as references. After hiring, incorporate evaluation of the employee's compliance with company ethics and anti-fraud programs into regular performance reviews.

3. **Train employees in fraud prevention**.
   Once carefully screened employees are on the job, they should be trained in fraud prevention. Are employees aware of procedures for reporting suspicious activity by customers or co-workers? Do workers know the warning signs of fraud? Ensure that staff know at least some basic fraud prevention techniques.

4. **Conduct regular audits**.
   High risk areas, such as financial or inventory departments, are obvious targets for routine audits. Surprise audits of those and all parts of the business are crucial. A good starting point in identifying fraud risks and establishing a strategy to prevent such losses is ACFE's Fraud Prevention Check-up (PDF): http://www.acfe.com/fraud-prevention-checkup.aspx.

5. **Call in an expert**.
   For most firms, fraud examination is not a core business component. That's why, when fraud is suspected or discovered, it is imperative to enlist the anti-fraud expertise of a Certified Fraud Examiner (CFE). The CFE credential is recognized by businesses and governments worldwide as the standard for fraud investigation, prevention and detection.

In summary, this is only a brief overview of what currently exists to assist you with the ever- increasing risk of _fraudulently_ conveyed cheques. If you could assemble all of the technologies that are currently available into one package, one could argue that nearly all **cheque** fraud affecting your entity could be prevented. However, for a single entity to incorporate all of the current fraud prevention strategies would be cost-prohibitive and possibly too time-consuming to handle the workload. What an entity needs to do is determine where the greatest risk exists, and then develop a strategy that incorporates the most effective fraud prevention weapons for the entity's specific needs.

Other Ideas and Tips

About Aboriginal Financial Officers Association of BC

AFOA is people helping people. We support the dedicated individuals working in the fields of Aboriginal finance, administration, human resources, economic development, business and governance. By providing the highest quality training and professional development, offering the latest tools and resources, and lobbying for our members' needs, we work toward a vision of social, economic, and cultural prosperity for all Aboriginal people in BC.

For more on what we do, see our list of Member Benefits.

Our Vision

Social, Economic, and Cultural prosperity for all Indigenous people and communities in BC.

Mission

To Build Capacity Together

Services

1) Professional development
2) Community workshops and programs
3) Regional workshops and seminars
4) Training Conferences
5) Prepared Tools and Resources
6) Communications and phone support

Objectives

- Advance the knowledge and proficiency of members through education and accreditation.
- Promote and maintain professional 'best practices' in financial and business management amongst members through a code of ethics and conduct.
- Facilitate the development and implementation of standards for accounting and financial management which meet the needs of First Nations' Organizations.

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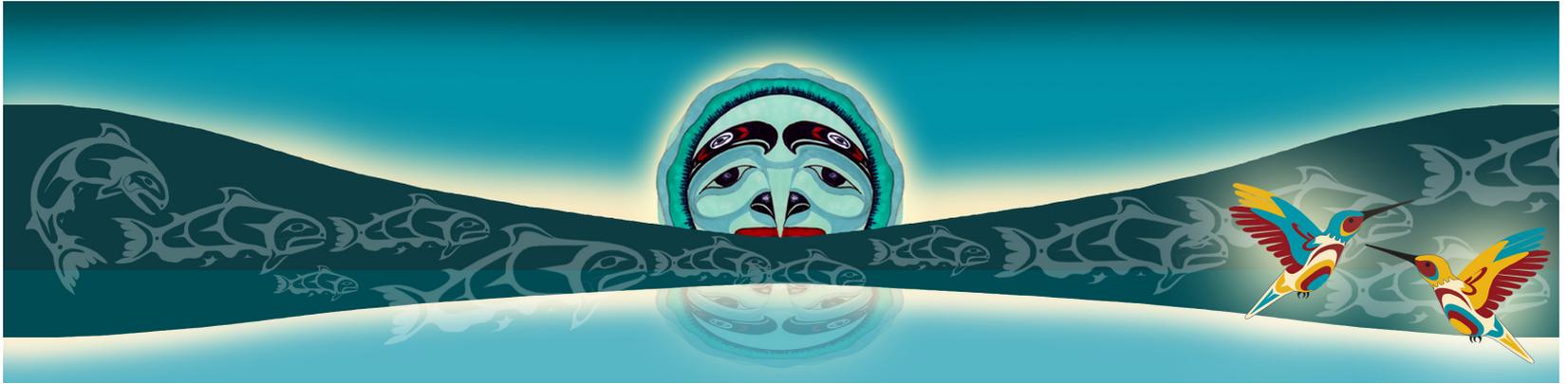
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