

Audit Prep 2025

Presented by:

Aboriginal Financial Officer's Association of BC

Sponsored by:

Indigenous Services Canada

The Audit Preparation Workshop Guide



AFOA BC AUDIT PREP 2025

An Audit Preparation
Workshop Guide



Indigenous Services Canada and
Aboriginal Financial Officers Association of BC
2025



Follow along in the Guide for more
information and notes

Bill C-27 or the First Nations Financial Transparency Act

Requires, under Section 5(1), that a First Nation **must** maintain its accounts and prepare its consolidated financial statements annually in accordance with generally accepted accounting principles ...



About Your Audit

Guide pg. 3-8



Management's Responsibility

Reasonable estimates

Judgements

Maintenance of internal controls

Protection of assets of the Nation

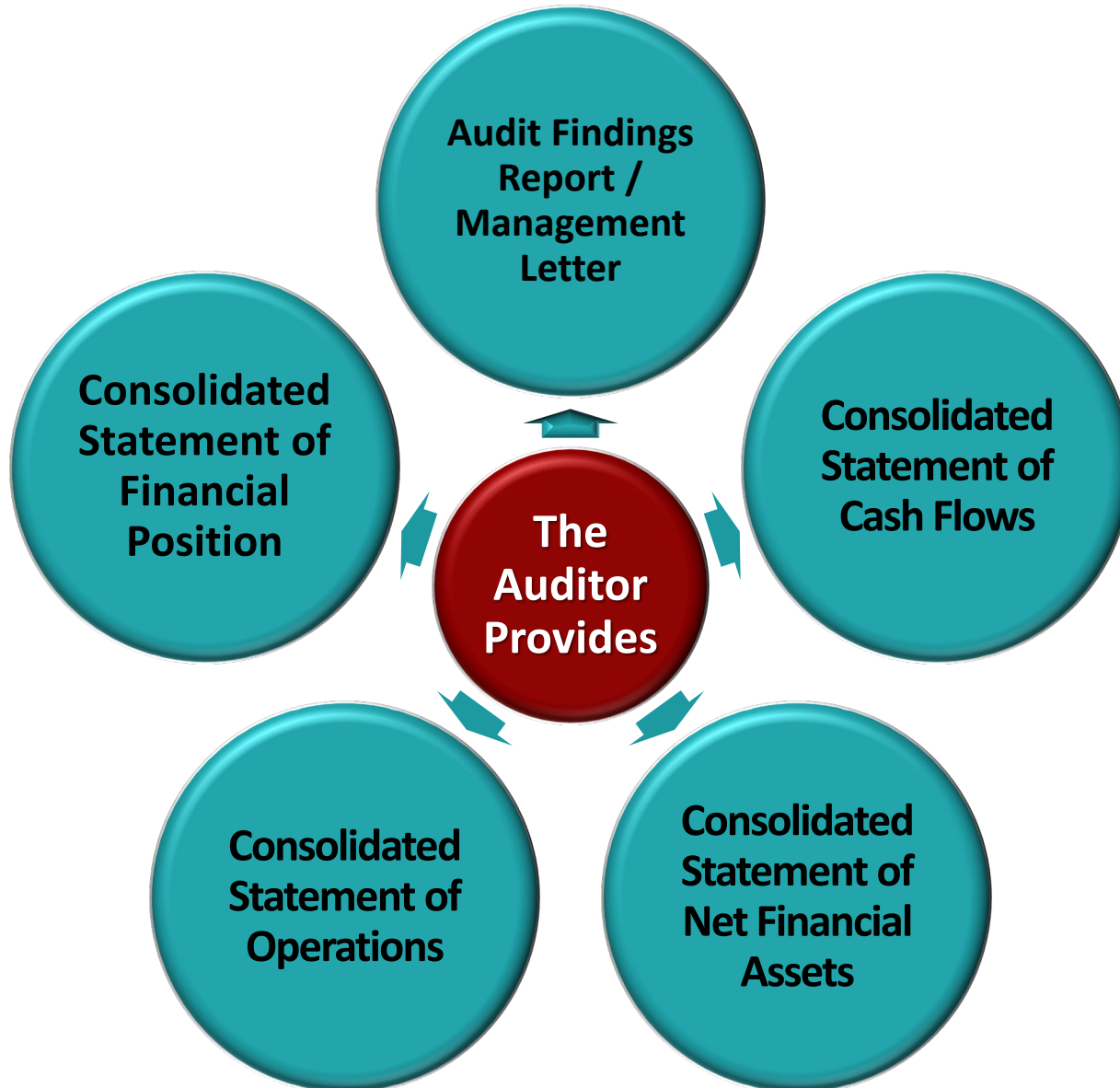


What your auditor prepares



Guide pg. 7

What your Auditor provides to you



Audit Findings Report / Management Letter

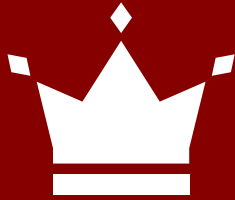
- An Audit finding is a comment on either the design and or the effectiveness of the systems of internal control, and
- May involve financial reporting, compliance, and/or the design or effectiveness of internal controls.
- Communicates either acceptability of the status of the management system or reports non-conformances that need corrective action.



Auditor's Role and Responsibilities

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Auditors



Primary responsibility:

- Identify items that have a reasonable possibility of being materially misstated
- Design and execute tests to determine if misstatements have occurred
- Tests the effectiveness of internal controls

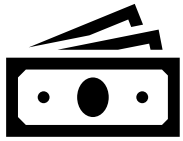


Provide assurance:

Internally to:
management

Externally to:
Citizens, Investors,
business partners, and
lenders

Categories of Importance



Transactions

- Occurrence
- Rights & obligations
- Completeness
- Valuation & allocation



Account Balances

- Existence, rights & obligations
- Completeness
- Classification & understandability
- Accuracy & valuation



Presentation & Disclosure

- Occurrence, rights & obligations
- Completeness
- Classification & understandability
- Accuracy & valuation

Testing



Substantive

Testing
Procedures
Guide pg-9

Control

**Detect
material
misstatements**

**Ensure internal
controls are
operating effectively**

Red Flags

❖ Approvals are missing	❖ Transactions require reallocating
❖ Items cannot be traced to a bank statement	❖ Invoices contain arithmetic errors
❖ Documents do not agree to contract amounts	

If your auditor is satisfied with his or her initial sample of your data no further testing will occur

What CAN'T your Auditor do?

CAN'T

guarantee 100% accuracy.

CAN'T

create an audit process that eliminates all risk of misstatement

CAN'T

adjust the Nation's financial statements without the approval of management

CAN'T

guarantee compliance with funding agreement eligibility

Audit Opinions

Guide pg-11



DISCLAIMER OR DENIAL OF OPINION

Insufficient evidence to form an opinion

ADVERSE

misrepresents the Nation's financial position

QUALIFIED

Limited discrepancies exist and are identified

UNQUALIFIED

Considered accurate



Preparing for the Audit

Guide pg. 13 - 20

Recommended activities in preparation for your audit



#1

Set up a
Finance &
Audit
Committee



#3

Source an
auditor



#2

Prepare an
audit plan



#4

Get your
books in order
– organize
required
documentation

Set up a Finance & Audit Committee



WHO - check your FAL/FAB – it will tell you who should be on your committee

- Should include at least one council member and one community member



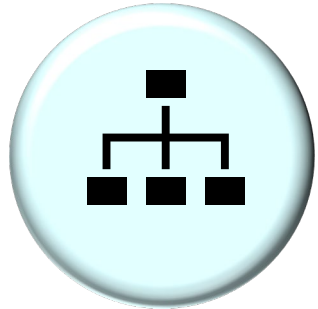
WHAT – the FAC will review and make recommendations to Council on the following:

- budgets
- Monthly financial statements
- Auditor appointment
- Audited statement review



WHEN – the FAC should be put in place when a FAB or FAL is enacted or upon recommendation of Council

The Audit Plan



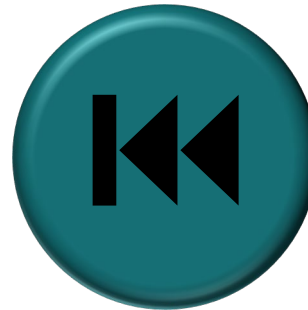
Identifying organization changes



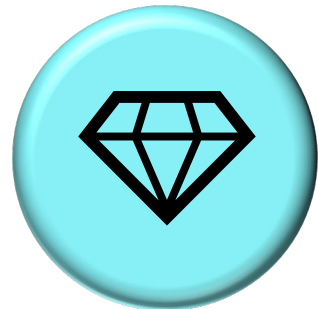
Timing of audit & estimated cost



Addressing regulatory changes



Assessing financial reporting risk identified from previous audit



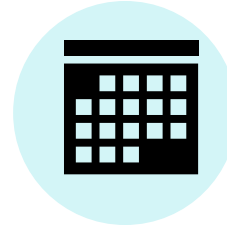
Determining materiality levels

Get your books in order



What?

Work to be done



When?

Will the field work be done



Who?

Does the work to prepare for the audit



Where?

Will the auditor perform the field work



How?

Will you communicate with the auditors



Audit Preparation

Guide pg. 44 - 51

Preparation Matters

- Preparation & accuracy of accounting records + effective financial policies = audit \$\$
- Accounting Department Priority – crucial to the process



Exercise – Accounts Receivable

1. A/R listing – potential issues?
 - What can you provide to auditor to save time and fees

Get Ready for the Audit

Record Final Transactions

- Prior to providing your detailed general ledger to the auditor
- Place any unrecorded transactions in a separate folder for posting by them

File & organize – electronic folders

Cash & cash equivalents

Petty cash vouchers – monthly testing, prenumbered vouchers

Bank reconciliation notes

Replacement reserve – CMHC

Accounts receivable

Portfolio investments & advances

Prepays

Tangible capital assets

Bank loans

Accounts payable & accrued liabilities



Note the date that cheques cleared on your outstanding cheque list and reference payment of same to subsequent bank statements which can be transferred electronically to your auditors

Organizing for the Audit



Files

Binders / electronic files

Higher quality reporting

Easier access to needed documents

Fewer misfiled documents

Control over confidential documents

Organizing your Documents



Files

Binders /
Electronic files

Benefits

- Higher quality reporting
- Easier access to needed documents
- Fewer misfiled documents
- Control over confidential documents

Close your General Ledger ASAP
and forward to your Auditors along
with journal entries

Chief & Council Minutes

Band Council Resolutions

Prior Year ISC Audit Review Letter

Financial Administration Law/ByLaw

Once initial GL and documents have been transmitted or delivered



Files

Binders /
electronic files

Communicate with your auditors to determine what documents need to be provided

Revenue & Expense Accounts

Statement of Financial Position

Exercise – Accounts Payable

1. A/P listing – review receipt of invoices and discuss what should be done
 - Perhaps discuss what to do if already provided TB to auditor



Audit Preparation Checklist

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Audit Preparation Checklist

A – Audit Planning - documents required for auditors

B – Review and Confirm Opening Balances

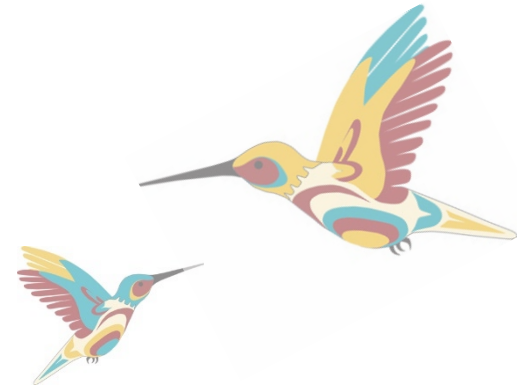
C – Field Work and Completion

Audit Preparation Checklist Details

**A - Documents
required for audit
planning purposes**

Initial Audit Document Assembly and Preparation

- BCR's
- Council minutes
- Org. charts



**B- Documents
required to
start the audit
process**

Review and Confirm Opening Balances

- Trial Balance
- Bank account and lawyer letters
- New GL codes

Audit Preparation Checklist Details

**C - Documents
required to
complete the
audit process**

- 1) Confirmation of finalization of records
- 2) Operating budget
- 3) Minutes of Chief and Council meetings
- 4) ISC audit review letter
- 5) CMHC Housing
- 6) Cash, bank and marketable securities
- 7) Accounts receivable
- 8) Notes receivable
- 9) Prepaid items
- 10) Due to/from related entities

Audit Preparation Checklist Details

**C - Documents
required to
complete the
audit process**

- 11) Investments - related entities
- 12) Tangible capital assets
- 13) Accounts payable/accrued liabilities
- 14) Payroll liabilities
- 15) Deferred revenue
- 16) Long-term debt/Bank loans
- 17) Revenue - ISC
- 18) Revenue – Provincial/Territorial
- 19) Revenue – Other
- 20) Expenses

Exercise – Deferred Revenue Schedule

- Review Continuity schedule and discuss
 1. Checks to make sure it is flowing correctly
 2. Principles of deferrals
- Capital assets best practices



Remote Audit Process

Remote Auditing

Remote audit - also known as an e-audit or virtual audit:

- ❖ the method of conducting an audit remotely using electronic methods to obtain audit evidence
- ❖ to ensure continued compliance in extraordinary situations or circumstances
- ❖ Use of portals for transmitting documentation with auditors
- ❖ *No different than during an on-site **audit***

File sharing options



Alternatively, your auditors may be able to access your computer system remotely.

This would allow them to export files to their systems for testing and tracing purposes.

The security features of such a system should include:

- ❖ logging and tracking that cannot be erased
- ❖ unable to alter data,
- ❖ access to specific folders only
- ❖ one way data transfer export only



Risk Assessment

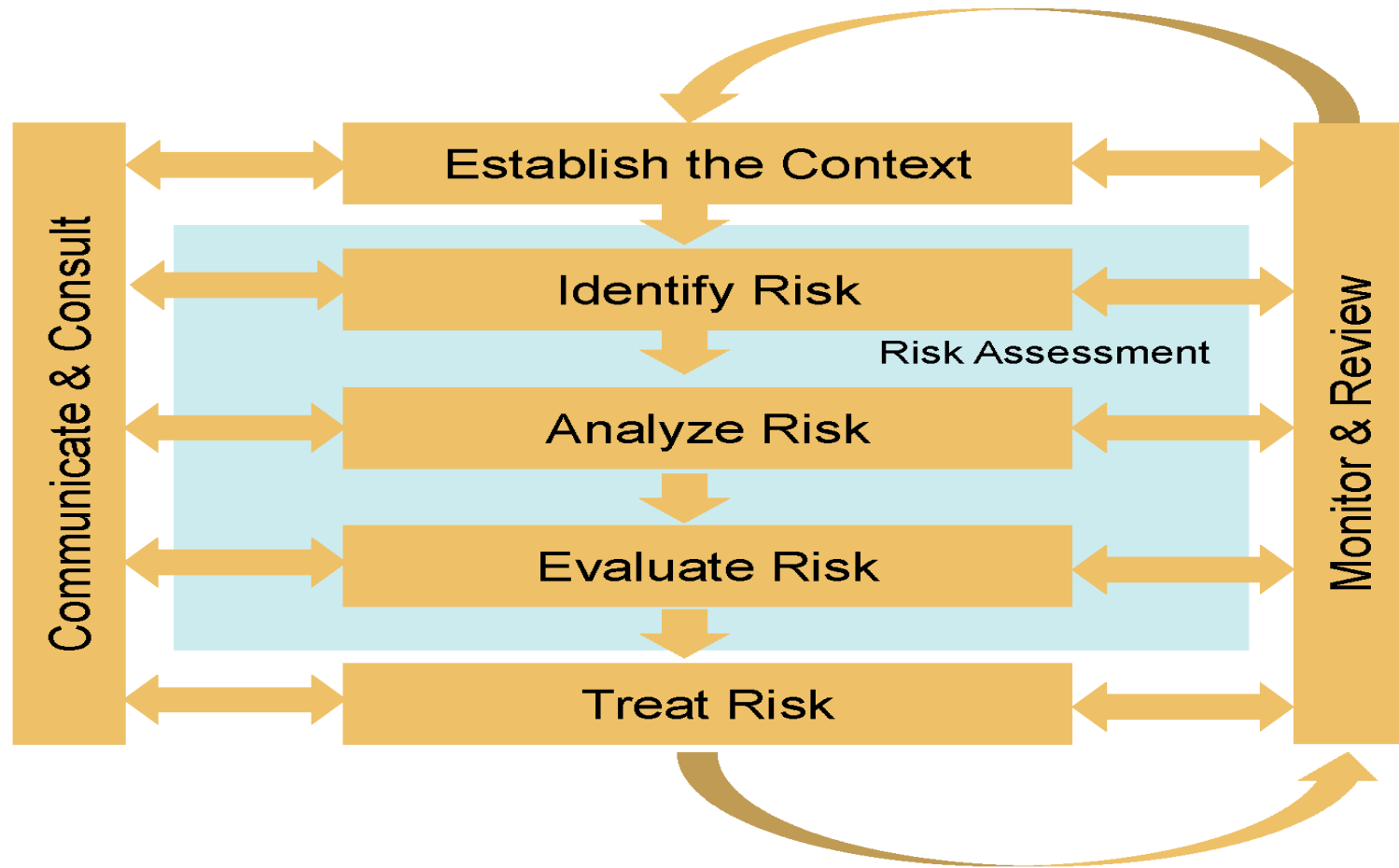
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Definition

- **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



The Risk Assessment Process



Risk Categories

➤ **Compliance**

➤ **Strategic Risks**

➤ **Governance Risks**

➤ **Financial Risks**

➤ **Operational / Program Risks**

➤ **External Risks**

➤ **Communication Risks**

➤ **Economic Dependency**

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.



Internal Controls

Guide pg. 24 - 32

Definition

Internal control is 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

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
- ❖ HR policies and procedures
- ❖ Assignment of authority and responsibility
- ❖ Management's philosophy and operating style
- ❖ Finance and Audit Committee participation
- ❖ Organization structure

Control Activities

Various policies and procedures that help to ensure necessary actions are taken to address risks affecting an organization's objectives.

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>.

Financial Policies

The purpose of the financial policy is to describe and document how leadership wants financial management activities to be carried out.

Five Areas of the Financial Policy

- ❖ Assignment of authority
- ❖ Conflicts of interest or insider transactions
- ❖ Authorization matrix to spend funds, including approval, check signing, and payroll
- ❖ Authority to enter into contracts
- ❖ Clear responsibility for maintaining accurate financial records

Arguments against internal controls

- ❖ Not enough staff to have adequate segregation of duties
- ❖ Too expensive
- ❖ 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.

Exercise – Capital Assets

Let's do an exercise regarding Capital Asset Best Practices

How to capitalize when you have funding for Capital Items



Financial Reporting

Being accountable means answering and reporting to your audiences – they are both internal and external to your organization's operations

Guide pg. 33 - 36

Internal Reporting

Managers

- Revenue and expenditure statements
- Comparatives to budget and last year
- Access to general ledger detail
- Concerns regarding variances

Council and CEO

- Full statements
- Performance measures
- Revenue and expenditure statements
- Comparatives to budget and last year
- Concerns regarding variances

External Reporting

Community Members

- Audited Financials statements
- The audit process – related to community
- Management discussion and analysis should accompany audited statements

Outside Agencies

- Funders – ISC, FNHA, CMHC or others
- Banks
- Creditors
- All other funders – Grants normally come with a reporting provision



Mitigating Fraud Risk

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Measures to combat fraud

1. Be proactive
2. Establish hiring processes
3. Train employees in fraud prevention
4. Conduct regular audits
5. Call in an expert



Asset Retirement Obligations (ARO) – PS3280

Guide pg. 38 - 39



Section PS 3280 - Asset Retirement Obligations

- Effective for year ends beginning on or after Apr 1, 2022
- Replaced PS 3270 (Landfills), PS 3260 (Contaminated Sites) unchanged
- Applies to all TCA's controlled by Nation, regardless of whether in productive use
- ARO exists if there is a legal requirement (by legislation or contract) that obligates the Nation to retire an asset



Section PS 3280 - Asset Retirement Obligations Examples

There are many potential TCA's that could give rise to an ARO, however some examples to consider:

- Asbestos removal (homes, buildings, other structures)
- Underground storage tanks
- Wastewater holding tanks and disposal fields
- Solid waste landfills



Section PS 3280 - Asset Retirement Obligations

Steps to Navigate

- Review all the TCA's controlled by the Nation
- Determine which TCA's have a legal obligation for retirement activities
- Estimate costs of required retirement activities

What information is required at each step?



Cyber Threat & Security

A **Cyber threat** is an activity intended to compromise the security of an information system by altering the availability, integrity, or confidentiality of a system or the information it contains, or to disrupt digital life in general.

Canadian Centre for Cyber Security:

Website Address: <https://cyber.gc.ca/en>



Audit Preparation Guide

Appendices

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Appendices

- ❖ Glossary of terms – Pg. 41
- ❖ Guide to Preparing for the Audit – Pg. 44
- ❖ Risk Themes – Pg. 52
- ❖ Minimizing the Risk of Cyber-Attack - Pg. 54
- ❖ Audit Preparation Checklist – General Pg. 55
- ❖ Information Security Risk Assessment Checklist – Pg. 62
- ❖ Suggested Working Paper Template – Pg. 66
- ❖ Suspicious Signatures – Things to consider - Pg. 67
- ❖ Victim of a forged cheque? – What to know Pg. 68



New and Emerging Issues



THANK YOU

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