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Its audit time
Are you prepared?
AFOA SK 19th Annual conference

The Board's role

- To govern the organization by setting the direction
- The Board bears the ultimate responsibility for the stewardship of the organization
- To monitor the progress of management through internal controls, policy compliance, regular reporting and the audit
- The Board delegates to management the responsibility for the day-to-day operations



Board's responsibilities over financial reporting




The Board is responsible for:

- Overseeing the integrity of the financial statements
- Overseeing the external auditor's qualifications and independence
- Overseeing the performance of the external auditor
- Overseeing the system of internal controls over financial reporting
- Identify and oversee the management of risks



Overseeing the integrity of the financial statement

Recording of the transactions

Planning 	What do we plan to do?	Budget
Actions 	How we are doing? Did we do what we said we were going to do? Is our spending in line?	Monthly Reports
Results 	How did we do?	Financial Statements

Cash

- What is our current cash balance? Can we invest any of it in a short term deposit?
- What are our cash needs over the next few months? Will we have enough cash to meet these needs?
- What are our cash needs over the next year? Will we have enough to cover off our expenditures and mortgage?



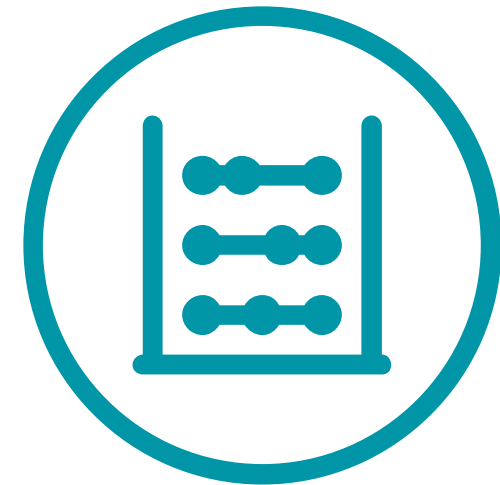
Investments

- What is our investment policy and what types of investments do we have?
- Who monitors investments and makes investment decisions?
- Is the money locked into a term or can we access it at any time? Is there a penalty?



Accounts receivable

- How old are the receivables? Are they collectible?
- What amount of the receivables have been collected subsequent to the balance sheet date?
- What is the organization's policy on receivable collection and credit granting?
- What is a reasonable balance for our organization?



Capital assets

- Who has the authority to purchase assets?
- At what dollar value does the purchase require Board's approval?
- Do we own assets which are not being utilized and that the organization could consider disposing of?
- Should we be buying or leasing equipment?
- Are we maintaining our assets? Do we have a deferred maintenance liability?



Accounts payable

- Is there a significant change over the prior year? If yes, why?
- Are bills being paid on time and discount terms being utilized?
- How much of the recorded balance has been paid since the balance sheet date?
- Are there any disputed payables which are not recorded?



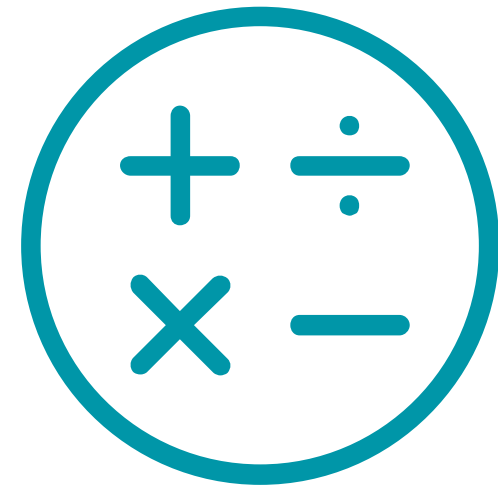
Long term debt and deferred revenue

- Is there any new debt?
- Have we made our regular debt payments?
- What is the cause of deferred revenue?
- What has to happen before the amount will be included in revenue? What is the critical event?
- Do we have deferred revenue balances that have been on the books for more than a year – If so, what is the money supposed to be spent on?
- If significantly different from the prior period then why?



Employee future benefits

- What makes up our Employee Future Benefits?
- Have we funded the Employee Future Benefit liability? If not, how much is unfunded?
- Do we have any plans to add provisions or negotiate out provisions in our employee agreements?



Revenue and expense

- Are there any new accounts?
 - If yes, why have they been added and do they make sense?
- Do the types of revenues/expenses make sense to my knowledge of the organization's operations?
 - Why has an account increased or decreased significantly compared to prior year and/or budget?
 - Percentage of Expenses Ratio's – Where is the organization spending its money? Is this consistent with the organization's mission?
- What is significant?
 - Is there anything that will change how the organization operates in the future?
 - Is our organization at risk from over-reliance on a funding source or line of service?
 - Are costs growing at a disproportionate rate?

Fund balances (Equity)

- If all the assets were converted to cash and all the liabilities were paid off at the balance sheet values, fund balances (equity) is that amount of cash the organization would have left or would still owe

$$\text{Assets} - \text{Liabilities} = \text{Fund Balances (equity)}$$

- Goal is a positive value
 - For example in a public service entity, this is tempered with good stewardship of the funds entrusted to provide a service.
 - Appropriated vs unrestricted fund balances
- What has been appropriated and why?
- Are internal appropriations still relevant?



Financial reporting

Significant policies

Ensure understanding and comfort with the significant accounting policy choices reflected in the financial statements.

- Are the major accounting policy matters identified?
- Are policy choices appropriate or aggressive? Consider specifically revenue recognition.
- Do they provide relevant and reliable information to the user?
- Are all transactions accounted for to allow comparability?
- If there has been a policy change does it provide more relevant information than the prior policy?
- Has the impact of any change on the financial statements and disclosures been clearly identified?



Financial reporting (cont'd)

Measurement and judgement

Ensure understanding and comfort and with the significant measurement estimates and areas of judgment.

- What are the areas of significant judgement and estimation?
- Has the method of estimation changed?
- Has a bias been identified in areas of estimation or judgement?

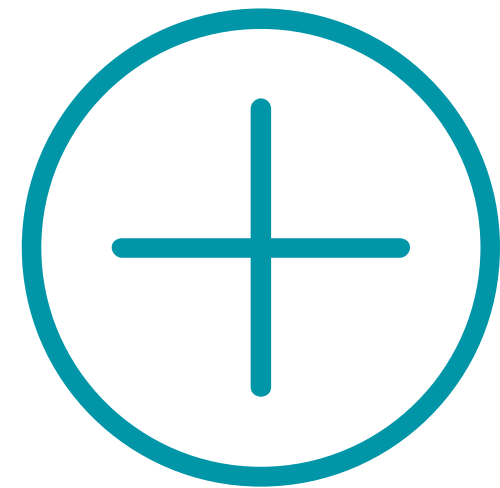


Financial reporting (cont'd)

Accounting disclosures

Ensure disclosures are complete and appropriate.

- Are you satisfied that the disclosures are complete and appropriate?
- Are there any complex matters disclosed in a way that is unclear, or prevents transparency?
- Is the revenue recognition disclosure adequate to ensure stakeholder understanding?
- Are all significant commitments disclosed?



Financial reporting (cont'd)

Other matters

- Are there any foreseeable accounting policy changes that will have a significant impact on the financial reporting?
- Are there any means by which management can improve the efficiency of preparing the financial statements?



Overseeing the external auditor's qualifications and independence

Overseeing the performance of the external auditor

Audit planning process

- What is the make up of the audit team, what level of continuity does that bring?
- What is the planned materiality level?
- What level of identified error will be discussed?
- What are the key areas of identified risk?
- What is the proposed scope and associated fees?
- What is the approach to additional billings?
- How do you ensure independence is maintained?
- What do you think the Auditors need to investigate?
- Is that included in the audit plan?
- Did you receive full cooperation and open access from management?
- What was the cause of the errors identified, if any?
- What was the resolution of the work done around risks identified in the planning process?
- Specific questions on financial reporting and internal control?

Overseeing the system of internal controls

Internal controls

Responsibilities

- The Board has a responsibility to oversee management's assessment of internal controls over financial reporting
- To fulfill this responsibility, the Board must, at a high level, understand how controllable risks are managed and be familiar with the processes and controls management has put in place



Internal controls (cont'd)

Questions

The Board probes to gain satisfaction that the Organization has adequate internal controls over its major risks.

Questions to consider:

- Were significant weaknesses in internal controls identified?
- Are internal controls sufficient to deter fraudulent activities?
- What improvements can be to internal controls to reduce the risk of fraud?
- Does the control structure of the organization consist of primarily preventative or detective controls?

What could go wrong?

Who will stop it?

Risk management



Risk management Responsibilities

- Boards are responsible for financial risks and overseeing the process for identifying and addressing those risks
- There is a responsibility to discuss risk assessment and risk management policies with management



Risk management (cont'd)

Questions

To assist in fulfilling risk management responsibilities, the Board could consider asking this questions:

- How effective is the process for identifying, assessing and managing business risks?
- How is risk management coordinated across the Organization?
- What are some early warning signs that the Board should be looking for?
- Are there any indications of early warning signs in the current financial statements?
- What mechanisms does management use to monitor emerging risk? What are the early warning mechanisms, and how effective are they? How, and how often are they calibrated?
- Are there any anticipated government policy changes that will affect how the government exercises its directive power with respect to the Organization?

Risk management (cont'd)

Questions

- What is going on in the world that could affect the Organization?
- How does the Organization monitor and evaluate changes in the external environment and their impact on Board's strategy and risk management practices?
- Does scenario planning include both individual and aggregate risk views?
- How does the Board ensure that the Organization is performing according to the budget and within appropriate risk tolerance limits?
- What information about the risks facing the Organization does the Board get to help it fulfill its stewardship and governance responsibilities?
- How does the Board know that the information it gets on risk management is accurate and reliable?

Accountability



Accountability

Questions

In addition to fulfilling its responsibilities, the Board can ask questions to ensure that the Board and management are held accountable.

Questions to consider:

- Is there consistency to explanations and messages on performance across the financial statements?
- Are there sufficient safeguards against conflicts of interest?
- Are the Organization's procurement processes appropriate?
- What are the requirements for transparency and reporting in this sector?
- Has there been cooperation between management and the external auditor?
- Do the audit findings or errors detected by the external auditors, in conducting their audits, support or contradict management's conclusion on the effectiveness of internal control?

Accountability (cont'd)

Questions

- Do the audit findings or errors detected by the external auditors, in conducting their audits, support or contradict management's conclusion on the effectiveness of internal control?
- How can the Board continually improve their communications with the external auditor and management?



Resources

CICA – “20 Question” Series

Centre for Corporate Governance

- www.corpgov.deloitte.ca

DeloitteLINK

- www.deloitte.com/ca/DeloitteLINK

Deloitte Update

- www.deloitte.com/ca/update

Directors’ Series

- www.deloitte.com/ca/DirectorsSeries

Standard-Setting Activities Digest

- www.deloitte.com/ca/standards





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