

# Annual Audit Review for ISC Reporting



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## First Nation Audits

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# Elements of Annual Audit

1. Audited financial statements – main audit
  - Auditor’s report
  - Financial statements
  - Notes to financial statements
2. Schedules of revenue and expenses – income and expenses by program – used by funders for program review and surplus recoveries
3. Chief and Council remuneration schedule
4. Senior managers’ remuneration schedule
5. Audit management letter
6. CMHC Housing financial statements



# Auditors Report

- Provides an opinion on whether our records are correct.
- Can be “clean”/“unqualified” or “qualified”.
- Qualified opinion is a red flag, we always strive to get a clean opinion.
- In rare instances there’s an adverse (negative) audit opinion or a disclaimer (denial) of opinion.
- Examples of auditor reports

# Financial Statements

- Balance Sheet/Statement of Financial Position – assets, debt and accumulated surplus.
- Income Statement/Statement of Operations – funding and other income, expenses and surplus/deficit.
- Cash Flow Statement – shows if the organization was cash positive or negative.
- Statement of Changes in Net Debt.



## Notes and Schedules

- Notes to financial statements – provide additional information about balances in the financial statements
- Audit schedules – income and expenses by program – used by funders for program review and surplus recoveries
- Schedule of Chief and Council remuneration



# Audit Review for ISC – Intervention or Financial Management Concerns

- Intervention types: MAP (management action plan), co-management and third-party management.
- If under intervention or having discussions with ISC about financial management concerns, most important audit deliverables are:
  - ✓ Clean audit opinion
  - ✓ Balance sheet shows a decrease in net debt
  - ✓ Balance sheet shows an increase in accumulated surplus
  - ✓ Audit management letter doesn't contain major concerns

# Audit Review for ISC – Intervention or Financial Management Concerns Continued

## Audit review steps:

1. Go to the auditor's report – is the opinion clean or qualified? If qualified, read the qualification paragraph and ask questions. Discuss with auditors if removing the qualification is possible.
2. Review balance sheet noting the following:
  - Net debt – increase or decrease
  - Accumulated surplus – increase or decrease
  - Long term debt and bank indebtedness – increase or decrease
3. Go to long term debt note, review details including new loans, interest rates and 5-year repayment amounts. Ask what the new loans were used for.
4. Review audit management letter and ask questions to understand every point. Discuss possibility of removal of certain points with the auditors.



# Audit Review for ISC – Intervention or Financial Management Concerns Continued

## Audit review steps:

5. Skim through the notes in the main audit. If something attracts attention go into more details and ask questions.
6. Read contingent liabilities note – are any lawsuits mentioned? Ask for details.
7. Go to segment disclosure note and review in details – get the big picture – which programs have surplus and which deficit?
8. Review schedules of revenue and expenditures for specific program results. Consider a request to use surpluses for debt repayment (only available if in intervention).
9. Review the remaining documents – remuneration schedules and audit management letter, ask questions.



## Audit Review for ISC – No Financial Management Concerns

1. Review schedules of revenue and expenditures for specific program results. Consider reallocations to reduce surpluses/deficits.
2. Go to the auditor's report – is the opinion clean or qualified? If qualified, read the qualification paragraph and ask questions. Discuss with auditors if removing the qualification is possible.
3. Go to the statement of operations and review the bottom line – is there a profit or a loss?
4. Review Segment Disclosure note (normally the last note) and understand what program the surplus/deficit is from. Can the surplus be used only in the program it's from?
5. Go back to statement of operations and review total funding and total expenses vs budget/last year, notice variances. Request explanations.



## Audit Review Process – Continued

6. Review balance sheet noting the following:
  - Net debt – increase or decrease
  - Accumulated surplus – increase or decrease
  - Long term debt and bank indebtedness – increase or decrease
7. Go to long term debt note, review details including new loans, interest rates and 5-year repayment amounts. Ask what the new loans were used for.
8. Back to balance sheet – review non-financial assets (land, building and equipment) – is there an increase? Review capital assets note.



## Audit Review Process – Financial Management Concerns Continued

9. Skim through the notes in the main audit. If something attracts attention go into more details and ask questions.
10. Read contingent liabilities note – are any lawsuits mentioned? Ask for details.
11. Go to segment disclosure note and review in details – get the big picture – which programs have surplus and which deficit?
12. Review the remaining documents – remuneration schedules and audit management letter, ask questions.

# Practical Application for First Nations Finance

Thank you for your time



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