

2015 ONPHA Conference & Trade Show



Session #705:

## Good Governance: Easy Audit Prep

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## Outline

- 1. Financial statement readers
- 2. Policies and Procedures
- 3. Outline of an Audit File
- 4. Final Tips



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## Financial Statement Readers

- Who are your financial statement readers?
  - 1. The Board of Directors
  - 2. Service Manager
  - 3. Canada Revenue Agency
    - Charity Return or Tax Return
    - HST Returns
  - 4. Banks/Lenders
  - 5. New Clients



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## Financial Statement Readers

- Why is this important?
  - 1. Financial Statement are **your** financial statements
    - Auditor is only responsible for the Auditor's Report
    - Your responsibility for the statements themselves
  - 2. Financial Statement notes
    - Note Disclosures need to reflect your readers wants and needs



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## Financial Statement Readers

- Keep changes to Financial Statements to a minimum
  - This is where your audit bill can increase
  - Discuss possible changes at board level and review changes prior to audit



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## Financial Statement Readers

- Your objective is to ensure all accounting is prepared and policies and procedures are followed
- Your auditor's objective is to express an opinion on how the financial statements were prepared and audit the records
- Auditor's should not be involved in the accounting entries or as little as possible
- For the most part the financial statements must follow Generally Accepted Accounting Principles



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## Policies and Procedures

- Importance of policies and procedures
  - Strengthens Internal Controls
  - Written Expectations
    - Job Descriptions
    - Checklists
  - Good Financial Management



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## Audit File

- Trial Balance
  - Electronic/PDF prior to Site Visit
    - Trial Balance
    - Balance Sheet
    - Profit & Loss Statement
    - Cash Flow
    - Schedules and Note Disclosure
    - General Ledger for the year + subsequent months



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## Audit File

- Corporate Information
  - Have there been changes to by-laws?
  - Prior Year Tax Return Assessment Notice
  - Updated listing of Board of Directors
  - Meeting Minutes
    - Are they Signed?



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## Audit File

- Cash
  - Monthly Reporting
    - Bank Reconciliations
      - Reviewed and signed?
      - Are there cheques over 6 months old?
    - Line of Credit used? Overdraft?
  - Policies and Procedures
    - Do you accept cash?
    - Signing Policy
      - Who is authorized to sign cheques?
      - Do they initial all source documents when signing cheques?



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## Audit File

- Cash Documentation
  - Month End Bank Reconciliation
  - Subsequent Month Bank Reconciliation
  - All remaining bank statements for the year including cancelled cheques for all accounts
  - Changes to Banking Resolutions
  - Signed Bank Confirmation
  - Deposit Books
  - Policies and Procedures



## Audit File

- Tenant Receivables
  - Monthly Reporting
    - Aged Tenant Receivable = Trial Balance
    - Tenant Arrears report to Board monthly
    - Update on potential bad debts
    - Legal proceedings



## Audit File

- Tenant Receivables
  - Policies and Procedures
    - What happens after that first missed payment?
    - When is the N4 issued? L1?
    - What happens if a tenant moves out owing rent and or back charges?
    - When do you notify Service Manager?



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## Audit File

- Tenant Receivables
  - Documentation
    - Aging Tenant Listing at Year End
    - Aging Tenant Listing subsequent month
    - Aging Past Tenant Arrears
    - What should the Allowance be?
    - Tenant Confirmations may be requested to be sent to a number of current tenants
    - Policies and Procedures



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## Audit File

- GST/HST Receivable and other receivables
  - Monthly Reporting
    - Detail listing of what balances consists of to ensure collection
    - If they are being recorded you have to prove the likelihood of collection
      - Significant audit evidence



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## Audit File

- GST/HST and other Receivables
  - Documentation
    - Prior year HST Assessment
      - Auditor will want to see evidence of deposit
    - Current year Calculation done (monthly or Annually)
    - 40% Government Funding Calculation
      - if required
    - Listing of other receivable
      - Significant audit evidence to substantiate collection is highly likely



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## Audit File

- Investments (Short and Long Term)
  - Monthly Reporting
    - Investment activity
    - Market Values compared to cost
    - Investments adequate to cover all reserves?
  - Policies and Procedures
    - Investment Policy
      - Funds with Phillips Hagar & North
      - Are investment ear marked for Specific Reserves, Last Month Rent, Operating?



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## Audit File

- Investments (Short and Long Term)
  - Documentation
    - Calculation of interest accruals
    - Posting of Interest/capital gains
    - Adjustments to market values
    - All investment statements
    - All investment certificates



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## Audit File

- Investments (Short and Long Term)
  - Documentation con't
    - Board meeting minutes authorizing purchases/redemptions
    - What is the board intent with investments (sometimes short term investments may be considered long term)
    - Policies and Procedures



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## Audit File

- Prepaids including Warranties
  - Monthly reporting
    - Can include Taxes, Insurance, deposits with utilities, Warranties
    - Can be recorded monthly or based on Year End



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## Audit File

- Prepays including Warranties
  - Documentation
    - Source document
      - Insurance Invoice & Policy
      - Interim and Final Municipal Tax Bill
      - Insurance claims during the year up to audit visit
      - Paid membership dues
      - Elevator?



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## Audit File

- Capital Assets
  - Monthly Reporting
    - For the most part no activity
    - Additions? Disposals?
    - Depreciation
      - Straight Line? Declining Balance?
      - Useful life?
      - Salvage Value?
  - Policies and Procedures
    - Capitalization policy
      - Post EOA this may be required



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## Audit File

- Capital Assets
  - Documentation
    - Proof proper purchasing procurement was done
    - Source Documents
    - Summary of Cost, Accumulated Depreciation and Net Book Value
    - Summary of additions and disposals if any
    - Policies and Procedures



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## Audit File

- Payable and Last Month Rent (if required)
  - Monthly Reporting
    - Aging Payable ties into Trial Balance
    - Payables over 90 days
    - Listing of Last Month Rent Deposits ties into Trial Balance



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## Audit File

- Payables and Last Month Rent
  - Policies and Procedures
    - Is a last month rent required?
    - When is the interest paid?
    - Interest = Rent Control Guideline for the year



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## Audit File

- Payables and Last Month Rent
  - Documentation
    - Again Payable Listing
    - Last Month Rent Listing
    - Accruals
      - Utilities
        - Is there work performed but not invoiced?
    - All payments made subsequent to year end
    - All unpaid invoices at time of audit visit
    - All invoices relating to audit, legal and other professionals rendered during the year up to the audit visit
    - Auditor may require confirmations to be sent
    - Contractual Obligations?
    - Contingent Liabilities – Legal Confirmation



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## Audit File

- Mortgage
  - Monthly reporting
    - Adjust for monthly payments = to amortization schedule
    - Capital Assets = Mortgage



## Audit File

- Mortgage
  - Documentation
    - New mortgage?
    - Amortization schedule
    - Confirmation
    - Sector Support?



## Audit File

- Replacement Reserve
  - Monthly Reporting
    - Activity for the month
    - Approval of expenditures
    - Review of Actual Expenditures to Budget
    - Interest recorded on reserve investments



## Audit File

- Replacement Reserve
  - Policies and Procedures
    - Annual Capital Budget approval
    - Proper Procurement for large expenditures
    - Future Capital Planning
    - Capital vs Operating



## Audit File

- Replacement Reserve
  - Documentation
    - Activity during the year
    - Source documents
    - Does the contributions = budget?
    - Proof of Proper Procurement
    - Policies and Procedures



## Audit File

- Accumulated Surplus
  - Monthly Reporting
    - Does it tie into Prior Year Financial Statements?
    - Transfers Approved?





## Audit File

- Rental Revenue
  - Monthly Reporting
    - Unit statistics
    - Vacancy Reporting
    - Reconciliation to Gross Potential Rent



## Audit File

- Rental Revenue
  - Documentation
    - Monthly Revenue broken down by market vs. RGI
    - Unit Activity Data (D2)
    - Reconcile Potential Rent to Actual
    - Board approved rental increase



## Audit File

- Subsidy Accounts
  - Monthly Reporting
    - Subsidy given vs budget
    - Government subsidy owing/receivable
  - Policies and Procedures
    - Checklist on Information required for RGI calculations
    - Who reviews RGI calculations



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## Audit File

- Subsidy Accounts
  - Documentation
    - All correspondence from Service Manager
    - Service Manager Budgets and Reconciliations
    - Completed monthly Rent Supplement request forms
    - Annual Information Return Completed



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## Audit File

- Expenses
  - Monthly Reporting
    - Variance Actual to Budget vs Prior Year
  - Policies and Procedures
    - Procurement Policies



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## Audit File

- Expenses
  - Documentation
    - Variance to Budget to Actual vs. Prior Year
    - Contractual Agreements



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## Audit File

- Salary Expense
  - Monthly Reporting
    - Salary expense vs budget
    - Remittance done?
  - Policies and Procedures
    - HR Policies



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## Audit File

- Salary Expense
  - Documentation
    - Payroll Register
    - T4 Summary and T4s
    - Source Deductions
      - Receiver General/EHT/WSIB payable at year end required disclosure
    - Employment Contracts/Employee Files
    - Board Approved Increases



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## Final Tips

- Keep Year End Binder/Folder
  - Update during the year
- Keep your auditor in the loop



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## Final Tips

- More information on Policies and Procedures
  - ONPHA [www.onpha.ca](http://www.onpha.ca)
  - Your Service Manager



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Questions?



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