

Preparing for Year End Audits (with 2023 updates)

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Presented to you by:



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Speaker Bio



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About Enkel

- Based in Vancouver, BC
- Worked with over 100 NPOs and Charities across Canada
- Provide outsourced bookkeeping and accounting services
- Enkel would like to acknowledge that our offices are situated on the unceded traditional territories of the x^wməθk^wəyəm (Musqueam), Sk̓w̓x̓wú7mesh (Squamish), and səlilwətał (Tsleil-Waututh) Nations.



Bookkeeping



Payroll



Accounts
Payable



Accounts
Receivable



Controllership



Agenda

1. General background information on audits and industry trends
2. Importance of Year-End Reporting Process
3. Things to Look Out For During the Year End Reporting Process
4. Meaningful Reports for your Board
5. Changes in 2023
6. What you Need to Provide to Your Year End Accountant
7. Technology and Tools that Simplify Year End Reporting and Audits
8. What to Expect if you are Getting Audited
9. Year end CRA filings



Polling Question:

On a scale from 1-10, rate your level of stress during audit season.
(10 = Very Stressed)

Background

Why does your organization need a year end audit?

- May be required by jurisdiction
 - Example: Canada Not-for-Profit Corporations Act
- Bylaws may require it
- Contractual arrangements (e.g., funding or lending agreements) may require it
- Demonstrates integrity in the numbers for decision making purposes
- Demonstrates appropriate stewardship of funds
 - Asserts whether funds were spent as intended by donors or funders
- Provides an added layer of risk management

What are the general trends we are seeing?

- Audit fee increases due to rising costs of doing business and changes in auditing standards impacting the scope of work
- Personnel shortages, leading to delays in getting the audit started and completed
- Additional billing due to lack of preparedness for the audit
- Limited tolerance for changes once the audit process begins

Terminology

What are some common terms you might hear from you auditor?

- PBC
- Revenue recognition (revenue and deferred revenue)
- Accrued liabilities schedule
- Capital assets continuity schedule
- Materiality
- Significant risks

Why does good bookkeeping and record keeping matter?

- Less planning and adjusting required at year end
- Greater trust in the numbers which may translate into less scrutiny and testing
- Fewer adjustments from the auditor - generally translates to lower fees and less time to complete the audit
- Limiting surprises
 - Changes to bookkeeping records can result in management and the board having to adjust expectations and plans
 - Can mean that previous assumptions were incorrect



Polling Question:

On a scale from 1-10, how prepared are you for your upcoming audit?
(10 = Very Prepared)

Year End Reporting

A Typical Year-End Checklist

- Develop deadlines for closing the year
- Compile all documents: digital and/or hard copy
- Keep transactions up-to-date in accounting software
- Track all tax receipts
- Know if you are getting audited, review engagement or notice to reader
- Confirm with auditor your audit plan and timeline
- Brief your team on audit and their responsibilities
- Share draft audit financials with leadership team and Board
- Finalize financial statements to prepare required filings
- Prepare financial summaries to be included in the annual report

Other Things to Look out for During the Year End Reporting Process

- Credit card and bank account reconciliations
- Schedules for statement of financial position balances
- Donation types and imposed restrictions
- Allocation of expenses, including administrative expenses, to restricted programs
- Reporting to funders

Important Reports for Your Board

- Annual Financial Statements
- Auditor reports on audit plan and results of audit
- Budget Report
- Cash Flow Forecast
- Financial Forecast

Changes in 2023: There's not too many this year!

- Updates to Canadian accounting standards for not-for-profit organizations include:
 - New Section 4449, Combinations by Not-For-Profit Organizations, effective for fiscal years beginning on or after January 1, 2022
 - Scope of Section 4434, Intangible Assets Held by Not-For-Profit Organizations has been amended to include new AcG-20, Customer's Accounting for Cloud Computing Arrangements in Part II of the CPA Canada Handbook, effective for fiscal years beginning on or after January 1, 2024

Changes in 2023: There's not too many this year!

- Changes to Canadian auditing standard CAS 315, identifying and assessing the risks of material misstatement:
 - Auditors will be performing a more robust risk identification and assessment
 - Increased focus on information technology and general IT controls
 - Enhanced requirements related to exercising and documenting use of professional skepticism
 - Scalability of risk assessment process based on size, nature and complexity of entity

What to Provide to your Year End Accountant

- Trial balance
- General ledger
- Bank and credit card reconciliations and statements
- Accounts payable listing
- Accounts receivable listing
- Supporting schedules for other statement of financial position accounts (e.g. deferred contributions, accrued liabilities, etc.)

What to Expect Before and During the Audit

Before the Audit

- Set up finance committee or board of directors meetings with auditors
- Check your numbers and make sure books are up to date
- Meet the auditors for a pre-audit meeting to set/review expectations
- Gather documents required for the audit
- Clearly document the organizations policies, processes and internal controls (and ensure there is evidence of the performance of internal controls)

During the Audit

- Frequent check-in and communication with audit field staff
- Updates from auditors on outstanding items and audit findings
- Finance committee communications for any significant matters

Final stages of Audit

- Meeting of management and auditor to discuss draft financial statements
- Meeting with the finance committee and/or Board of Directors to discuss draft financial statements and results of audit
- Management recommendations letter

Post Audit

- Record auditor's adjusting journal entries
- Auditor's involvement in the Annual Report and website upload (if applicable)
- Review auditor's performance
- Appoint auditor for the subsequent year
- Implement auditor's recommendations

Audit Timeline

- Before the Audit
 - 2-4 weeks
- During the Audit
 - 2-4 weeks
- Final stages of the Audit
 - 1-2 weeks
- Post Audit
 - Immediately after the audit is finalized

Questions from the Board of Directors

Questions from the Board the Auditor might include:

- Were the internal controls for financial reporting adequate?
- Could you expand on the most material recommendations from the audit?
- Are there any legal or regulatory issues that may impact our finances?
- Did you find the management team cooperative?
- Are there any items that could be disputed by CRA or our funders?

Questions from the Board the Auditor might include:

- Did management follow suggestions from past audits?
- How does our nonprofit compare with other organizations?
- Did you find anything that needs to be brought to the attention of the board?
- Do you have further suggestions about ways to improve accounting, reporting, and operating procedures?

Questions from the Board Executive Director

- Are you satisfied with the auditor chosen to conduct the audit?
- Did you notice or hear about any challenges or disputes among staff during the audit?
- Was the presence of the auditor unduly disruptive to regular organizational activities?

Year End CRA Filings

Corporate income tax return (T2)

- NPOs incorporated under federal or provincial legislation are generally exempt from corporate income tax, but must (in most cases) file a return
- Due six months after year end
- No taxes payable on surpluses or capital gains realized

Trust Income Tax and Information Return (T3)

- Required if providing dining, recreation, or sporting facilities
- Taxed on income from these activities
- Must file an annual T3 within 90 days of calendar year end

T1044 – Non-Profit Information Return

- Required if the following criteria are met:
 - NPO received taxable dividends, interest, royalties, or rentals totalling more than \$10,000
 - Assets exceed \$200,000 at the end of the preceding fiscal year
 - NPO had to file a T1044 for the previous fiscal period
- Due six months after fiscal year end

T3010 – Registered Charity Information Return

- CRA requires T3010 filing for every registered charity each year
- Must be filed annually to maintain charitable status, even if organization is inactive
- Due six months after fiscal year end

Questions?

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Download our new guide: Revenue Recognition
for Not-for-Profit Organizations



Link to download:

<https://www.enkel.ca/resources/revenue-recognition-for-not-for-profit-organizations/>