

WHAT IS AN AUDIT?

Audits are a key part of any Canadian charity's risk management program because they provide valuable accountability, transparency, and assurance. An annual audit provides important and regular feedback to the charity's management, board, and donors. So, what is an audit? An audit is an official examination of financial and operational records. This examination is usually done by a third party; someone not involved in preparing the books and records, or financial statements. In most cases, audits are performed by Chartered Professional Accountants (CPA) with specific training as auditors. Auditors typically examine a single financial year of an organization. Auditors usually review a single, complete financial year. This is why audits usually occur around the same time as management is preparing the year end financial statements. After auditors complete their work they provide the charity's board and management with a report. This report states their opinion on the financial statements, and may contain qualifications and recommendations.

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What is an Auditor?

An auditor is usually an independent, licensed public accountant trained to review the books and records of charities and corporations. Auditors can work as sole practitioners, with other accountants in a partnership, or firm. Regardless of what their practice looks like, they qualify as auditors because they hold a valid professional CPA license to audit. Provincial and territorial CPA bodies, such as the Chartered Professional Accountants of Saskatchewan, regulate audit professionals and standards.

Levels of Assurance in Compilations, Review Engagements, and Audits

Audit professionals provide three different levels of examination and assurance:

COMPILATION

Compilations are the lowest level of assurance. During a compilation, a charity will hire a CPA firm to compile the organization's books and records in order to prepare a set of financial statements. During a compilation, a CPA will add a report to the front of the financial statements called a Notice to Reader. This report states that the financial statements are not audited, and that the CPA, or firm that prepared them offer no assurance that the financial statements are free from material misstatement and error. The only assurance a compilation provides is that a professional prepared the financial statements. The CPA does not look into the validity of the data they used to prepare the statements.

REVIEW

Reviews offer a deeper examination and level of assurance. Review engagements are often a quick way for the board to verify the amounts presented in the internally prepared financial statements. A review engagement looks at the critical areas of an operation and provides negative assurance. This means that the auditor takes a leisurely walk through the books and records, and if they seen nothing wrong, that is good enough. It doesn't mean that the auditor looks under each branch, or checks the health of each plant. They simply walk through, with a trained eye, looking for issues that may be of concern to the board and management.

For charities, a review usually validates the amounts and sources of gifts received, and the amounts and recipients of the charity's disbursements. They do this using analytical procedures and information gathering through interviews. The aim of the review engagements is to ensure that the information presented in the charity's financial statement's is plausible. At the end of the review engagement the auditor provides a report and an opinion on the plausibility of the numbers found in the financial statements. The opinion states whether it is plausible that the financial statements are free from material misstatement and error.

AUDIT

An audit engagement goes one step deeper than a review engagement and provides the highest level of assurance offered by an CPA firm. During an audit, the auditor uses a series of professional examination techniques called substantive procedures. Substantive procedures test the numbers of the financial statements and the processes that a charity uses to create those numbers. There is also a physical examination of the documents and inventory represented in the numbers of the financial statements. This means, an auditor will look at individual donation receipts and verify donation amounts, donor designations, receipt numbers, and the donor's personal information. Likewise, an auditor can call and verify that benevolence funds made it to the correct people and were used for charitable purposes. An auditor will understand your internal controls, and evaluate them for any significant deficiencies. This means they will test your online donation systems, offering counting system, and the process you use to issue cheques to vendors and staff. Once they have completed the audit, the CPA will issue an audit report. The auditor's report provides an opinion on whether the charity's financial statements are free of material misstatement and error. An auditor's report will also contain a Management Letter. This is specifically for management, and it details the charity's internal controls, and offers recommendations for improvement, along with other significant findings.



Which Is Right For My Charity?

Not all Canadian charities need an annual audit. For more information on which type of engagement is right for your charity visit the topic [Does Our Charity Need An Audit?](#)



How to I Find The Right Auditor?

For more information on how to select the right auditor for your charity visit the topic [How To Select An Auditor.](#)

Auditor's Reports

The Auditors' Report provides an overview of the charity's finances. The Report usually explains that the financial statements are the responsibility of the management of the charity. The auditor performs the audit to obtain reasonable assurances that the statements are free of material misstatements. The Report provides the reader of the statements with an opinion on whether the statements fairly present the financial position of the charity in accordance with Canadian accounting standards for not-for-profit organizations. Curtis editing this snippet. The following is a sample Auditors' Report: Lesley editing this snippet

▼ [Example of an Auditor's Report](#)

Source Documents: [□](#)