

The Gospel of Audit & Auditing

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AUDIT: -(v)- to examine, adjust, and certify; (n)-an examination of an accounting document and of the evidence in support of its correctness. Source: Funk & Wagnalls Standard College Dictionary.

AUDIT: -(v)- to examine and check (accounts, claims etc); (n)-a regular examination and checking of accounts or financial records. Source: Webster's New World Dictionary of the American Language, College edition.

In my role as your treasurer and as a member of the Certified General Accountants Association of Canada, Ontario region, I have been asked too many times what is the difference between the various audit terms that accountants use.

When **you** use the term *audit*, you refer to the fact that an independent person looks at the financial records and at the end gives you a set of financial statements and a report. And to top it off, the financial statements are generally marked unaudited.

When I and fellow accountants use the term *audit* (usually expressed as a *full audit*) it means something very specific. It refers to the process and the result, where every financial transaction potentially is examined for correctness, legality etc. Outside suppliers and creditors, including banks, are asked to verify balances and to explain differences from client's book values. It is very time consuming and very expensive to the client. Except for certain industries, and in certain circumstances, these full audits are not done very frequently for small businesses. The audit report will say something like "we have audited the financial position of..." and "our responsibility is to express an opinion on ...". These audits can only be performed by a licensed accountant. In all provinces except in Ontario, members of any of the three accounting associations in Canada can perform these audits providing they follow standards that are regulated by the industry as well as their individual accounting bodies.

The next common reference to audit by accountants refers to a *review* engagement. This process largely uses sampling techniques to verify correctness and legality of expenditures. It is therefore less time-consuming and less expensive to the client. It is usually performed by licensed accountants. However some of the accounting associations allow unlicensed members to perform these under certain restrictions. As with full audits, adherence to industry standards and regulations by the individual accounting bodies must be followed.

The last reference to audit by accountants refers to a *compilation* engagement. It is similar to the review engagement above, but it does not necessarily require that the transactions are examined in detail. In this engagement, the client prepared financial statements are examined line by line to the accounting records. At the end of this, the auditor compiles the financial statements using the clients records. It may include sampling of transactions but this is dependent upon the auditor's interpretation of the findings. This type of audit is the most common for small businesses, associations and non-profit organizations. It is also the least expensive of the three processes due to the brief nature of its work plan. All members of the three accounting bodies may perform these types of engagements. Again industry standards must be followed and individual accounting associations' rules and regulations must also be followed.

The end result of all three of the above is an audit report with (corrected if necessary) financial statements.. Depending on the type of audit, the wording and details of the report could vary a great deal.

Standards - What is GAAP?

I used the term industry standards above. By that we mean GAAP. GAAP stands for Generally Accepted Accounting Principles. No official list exists of what is understood by these words. I guess one could say that these principles consist of a body of recognized methods of handling accounting data and preparing financial statements. Specific examples include such concepts as

(1) determining income by deducting all costs incurred during a period from the earned income of that period, and

(2) the use of cost as a basis of accounting for assets.

In addition, in Canada accountants in public accounting practice, government and business follow principles and guidelines that have been formulated over the years and maintained by Canada's oldest accounting association the Canadian Institute of Chartered Accountants. As economies and business practices are becoming more complicated, both nationally and internationally, these guidelines are continually updated as required.

Accounting Profession Standards in general

In Canada there are three major accounting associations. The oldest of these is the Canadian Institute of Chartered Accountants (for CA's). The others are the Canadian Society of Management Accountants (for CMA's) and the Certified General Accountants Association of Canada (for CGA's). Historically the CGA Association to which I belong was set up, not to compete with the CA's, but to enable students to enter the profession through a different training program rather than only through articling and working for a CA firm until graduation. The Society of Management Accountants originally specialized in cost accounting but over the last 23 years have evolved into similar specializations as the other two accounting bodies.. In all provinces except Ontario these three accounting associations were and are treated equally in provincial legislation.

More Standards - Specific CGA & CMA requirements

In Ontario equality was only obtained a few years ago after a lengthy fight for recognition.. However because this legislation in Ontario was only recently enacted into law there are still kinks in applying for and obtaining licenses to practice public accounting. This goes for the CGA's as well as the CMA's in Ontario.

Due to the specific licensing requirements of the Public Accountants Act (Ontario) the CGA and CMA associations both restrict their members to be licensed if they intend to offer their services to perform full audits as described above. This means that until the licensing is universally applied to all three accounting associations, the CGA's and CMA's will offer their services mainly for compilation engagements. Also to ensure that those members adhere to professional standards, the CICA guidelines as well as their associations' very specific wording must be used in those engagements. Non-adherence could risk fines and possible loss of public liability insurance coverage.

Notice to reader on Compilation reports.

The main reason for this brief survey on accounting terminology- the compilation audit and the wording used on the "audited" financial statements at September 9 meeting.

The accounting profession calls for the expression "not audited" in all cases that are not a "full audit". This means that whenever a compilation engagement is performed the auditor uses the words "have not performed an audit or a review engagement." In addition because an audit or review has not been performed , the words "express no opinion thereon" or "express no assurance thereon" must be used. In most cases specific wording is prescribed by the auditor's accounting association and must be followed upon pain of fines or other disciplinary action by his association.

Before a compilation is performed, the client is asked to sign a letter wherein the detail of the work is listed with the expected reporting thereon. It is important to realize that in all "audit" engagements the

person doing the work is a skilled and experienced professional. A member of any of the three accounting associations in Canada had to undergo an extensive period of schooling, training and examinations before he or she was given that certificate .The training was in most cases a minimum of 5 years.

I have been advised that the Public Accountants Council of Ontario has ruled that on January 1, 2009, only licensed public accountants will be able to give an “auditor’s report” with or without compensation including honoraria, gifts or payment in other form. This means that the “Notice to reader” will become the norm for most charitable agencies.

In closing , I can assure you that the work performed on a compilation is extensive and is in enough detail that, in my own experience and that of many of my peers, a compilation engagement and it’s “ Notice to reader” is evidence that the client’s financial statements are a fair representation of the financial transactions for the period under review.

From The United Church Manual 2007 Definitions Section 001 (p. 34)

“Audit” means an independent examination of financial records, to determine the accuracy of financial statements, to determine whether financial transactions have been properly recorded, and to identify potential weaknesses in the accounting systems. Such an examination may be conducted by a public accountant as an audit or a review engagement, or by an individual who is familiar with bookkeeping and who understands the purpose of an independent examination of financial records. For Pastoral Charges or Congregations, these procedures include:

- (a) ensuring that there is segregation of duties among two (2) or more people who are at arm’s length;
- (b) examining the minute book of the Committee of Stewards or equivalent;
- (c) examining for accuracy the books of record, by reviewing cash receipts, cash disbursements, payroll, and general ledger transactions;
- (d) ensuring proper authorization of transactions;
- (e) reviewing bank reconciliations for the year;
- (f) ensuring that all donated monies designated for the Mission and Service Fund have been forwarded to the United Church on a monthly basis;
- (g) reviewing the procedures used in the record-keeping of the Pastoral Charge or Congregation, and ensuring that the chance of error or fraud is minimized;
- (h) verifying cash receipts against charitable donation receipts issued; and
- (i) ensuring that the annual information return was completed and submitted not later than six (6) months after the previous fiscal year end.