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Money Service Businesses – Audit Introduction

What is an audit?

- An audit is an independent evaluation of your company's financial statements ("FS"), records, internal controls, computer systems, business risks, certain fraud risks and other operational and structural aspects. It is designed to give the users of the FS comfort as to the validity, relevance and reliability of the FS, internal controls and the company's operations as a whole.
- The auditor's main purpose is to express an opinion in order to provide FS users with reasonable assurance they are free from material misstatement. Audits are not intended to detect fraud, rather how the FS reflect financial performance. Additional review for fraud can be undertaken by the auditor at management's request.
- The audit must be conducted in accordance with Canadian Auditing Standards ("CAS") following the Accounting Standards for Private Enterprises ("ASPE") and includes an examination, on a test basis, evidence supporting amounts and disclosures in the FS through quantitative and qualitative analyses. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. The audit evidence obtained must be sufficient and appropriate to provide a basis for an audit opinion.
- Management is responsible for the preparation and fair presentation of the financial statements in accordance with the ASPE and for such internal controls as management determines are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

What do audited financial statements look like?

- Auditor's report – indicates which years have been audited, a general overview of what an audit entails and what the auditor and management's requirements are, an explanation of any audit issues encountered, and a statement of the auditor's opinion as to whether the auditor believes that the company's FS are presented fairly, in all material respects, in accordance

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with ASPE. If this is your company's initial audit, the auditor's report will have a qualified opinion in the first year relating to the unaudited opening balances.

- Balance Sheet as at the year-end date including the prior fiscal year comparative.
- Statement of Income and Retained Earnings for the fiscal year-end including the prior fiscal year comparative.
- Cash Flow Statement for the fiscal year-end including the prior fiscal year comparative.
- Notes to the financial statements which summarize the significant accounting policies and other explanatory information.

The auditor will also submit a supplementary memo to the shareholders and management outlining any issues noted during the course of performing the FS audit. The memo will include significant deficiencies, if any, in the entity's internal controls and other operational aspects together with a summary of some recommendations. Significant items must be rectified in order to remain compliant.

Why should you get an audit?

- In a Compilation Engagement (aka Notice to Reader), the accountant's main duty of care to users of the FS is to ensure that the FS are not false or misleading. The accountant will likely record some adjusting entries to your books and prepare the corporate tax return. However, due to the nature of the limited amount of work that is performed, the accountant lacks the detailed knowledge of your business to be of real help to you.
- Since auditors review every aspect of the company and discuss the issues and potential solutions with management, benefits will arise from the information gained from the audit that includes improvements to business processes, operations, and profit. Other benefits may include learning about tax credits that are applicable to your business and helping you limit or avoid penalties caused by errors in your remittance calculations.
- An audit may be a regulator requirement.
- An audit may be desired by potential investors or lenders who will want to see more information and get more comfort in their reliance on the FS knowing that an independent auditor has examined the various aspects of the company and provided an independent, unbiased report.
- If you plan to take your corporation public, one of the initial steps in securing approval from a Securities Commission is the submission of several years of audited FS.

What are some of the items that auditors look at?

- Externally prepared FS and corporate income tax returns for at least the last two completed fiscal years including any government correspondence.
- Internally prepared FS for the fiscal year that has just ended.
- Computer systems, software, accounting programs and data files, including the general ledger, a copy of the detailed aged receivables and aged payables listings.
- Customer and supplier invoices and statements.
- Payroll information and calculations.
- Bank statements, monthly bank reconciliations, deposit books, and cancelled cheques.
- Minute book contents, including the articles of incorporation, contracts, leases, and other agreements, minutes of shareholder and director meetings, correspondences relating to any lawsuits, insurance claims, and settlements, etc.
- Internal controls over the general IT network, the accounting software, and the entity as a whole.
- Insurance coverage, backup and disaster recovery plans.

How do you implement an audit engagement?

- Initial discussion with shareholders and/or management to ensure that the scope and terms of the engagement are clear including price quotes.
- Meeting or telephone call to obtain a general and later a detailed understanding of your business including a discussion of any operational or structural changes made in the current year.
- Obtain a copy or receive the original items mentioned in the previous section.
- Auditors will review the information received, prepare initial trend analyses and the planning documents in order to formulate the audit implementation plan. At this stage, any necessary customer, vendor, or lawyer confirmations on any accounts receivable, accounts payable, or lawsuits (actual or potential) will be sent to allow for an efficient response time.
- Meetings with an industry expert, if required, may be held throughout the engagement to ensure that everyone is compliant and to provide industry know-how to the auditor and management if required.

- Auditors will visit the office and work with the shareholders, management, and staff to gather the information required and perform the various audit tests and procedures.
- In-depth meeting to obtain further information on internal control procedures and other operational aspects. This is the area where you can either add audit time or achieve the greatest cost savings. In the initial audit year you can see audit fee savings if you prepare the checklists that the auditor just needs to review with you.
- Auditors will examine reports, returns, and remittances sent to the various government agencies, including CRA (corporate tax, HST if applicable, payroll), FINTRAC, etc.
- Auditors will examine corporate records and bank statements for the post fiscal period to ensure that no material unrecorded liability or contingencies have been noted and to ensure appropriate year end cut-off procedures have been implemented.
- The auditor will review the draft FS including all of the schedules and notes, potential adjusting entries, and control deficiencies with the shareholders or management.
- The final FS and reports will be issued and any further meetings will be held. Thereafter the audit is complete.

Pricing

The audit fee can be lowered if the following conditions are present:

- Bookkeeping is accurate and reliable;
- All supporting documents are organized and agree to the records;
- Shareholders and applicable staff are willing to assist in the gathering of the required documents and they actively assist the auditors with the preparation of the various paperwork required (i.e. risk and controls checklists);
- No significant delays are encountered when dealing with the various people and companies involved in your operations.

Remember - the more preparatory work you do, the lower your invoice will be!

Do You Have Any Questions?

Please ask!