



The Annual Audit

While many organizations understand the importance of an audit to outside parties, such as funders, or government, there are still many that find the inner working and true value of the audit to be a mystery.

An annual audit is a condition of funding from Sport Manitoba for all categorized sports.

What is an audit?

An audit is a methodical and objective examination of accounts and items that support the financial statements (Colleen Boland and Carolyn Sechler). When your auditor is conducting your audit, they do so in accordance with generally accepted accounting standards. Using these standards, your auditor will provide or express an opinion on whether the financial statements fairly present the financial position and activities of your organization.

It is generally expected that an audit will be conducted by a trained and proficient auditor, who will exercise due professional care in the performance of the examination and preparation of the report. All work must be adequately planned, including evaluation of internal controls as a basis for reliance. Through inspection, observation, inquiry and confirmation, sufficient evidence is obtained to provide the basis for an opinion regarding the financial statements.

The Audit Report

- shall state whether the financial statements are presented in accordance with generally accepted accounting principles
- shall state whether such principles have been consistently observed in the current period in relation to the preceding period
- informative disclosures in the financial statements are to be regarded as reasonably adequate unless otherwise stated in the report
- shall either contain an expression of opinion regarding the financial statements, taken as a whole, or an assertion to the effect that an opinion cannot be expressed.
(adapted from Boland and Sechler)

What you are buying from you auditor is an opinion; an opinion that the financial statements are generally correct when compared to certain standards. The audit is therefore based on the premise that the organization has internally prepared financial statements and supporting documentation that allow the auditor to issue an opinion.

Parts of an Audit Report

1. Identification of the audited statements
2. An express statement that the financial statements are the responsibility of management

3. Identification of the standards by which the audit was conducted and the basis upon which the auditor forms his opinion
4. The opinion

Additional information may be included in the report to describe significant items such as departures from the standards or what procedures, if any, were performed on supplementary information included with the financial report.

Once the report has been drafted, the auditor should meet at least with management, if not the board as a whole to deliver the report and answer any questions arising. At a minimum, the auditor should provide a letter covering specific areas required by accounting standards to be communicated to the Board. These areas cover significant adjustments of the statements, significant estimates, change in accounting standards, disagreements with management and any other matters that the auditor feel it is important for the Board to know. Additionally, the auditor may identify recommendations for improvements, either orally or in writing. Generally these would be related to the recording and reporting of financial information.

Responsibilities of the Board

Selection of an auditor is the first responsibility of the Board. Though staff may provide recommendations, and the membership as a whole may have to provide approval of the appointment, it is the Board's responsibility to identify and engage qualified auditors.

The Board needs to be realistic about what is involved to actually render an opinion on your organization's financial statements. The Board needs to ensure that the rates and the experience/qualifications are both good. Once an auditor has been engaged, a meeting should take place to clearly define the expectations as to:

- Level and types of service
- Additional accounting services such as the creation of the financial statements
- Standard by which to compare and the time period to be covered
- Who will produce the financial statements (management or the auditor)
- Timing
including: creation of the financial statements; when and where the work will be performed; requirements of the Organization's staff/Treasurer; additional meetings; when will the report be delivered; and how many copies
- Fees for service

Web Resource: Nonprofit Financial Center (www.nfconline.org)

Grant Thornton International (www.grantthornton.com)

Charity Channel (www.charitychannel.com)

Carolyn Sechler (CPA) (azcpa.com)

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