

FINANCE · MANAGEMENT · LEADERSHIP



AFOA CANADA

Building a Community of Professionals

Understanding and Interpreting Audited Financial Statements

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Agenda

1. Overview of Audited Financial Statements
2. Analyzing Audited Financial Statements
3. Decision-making

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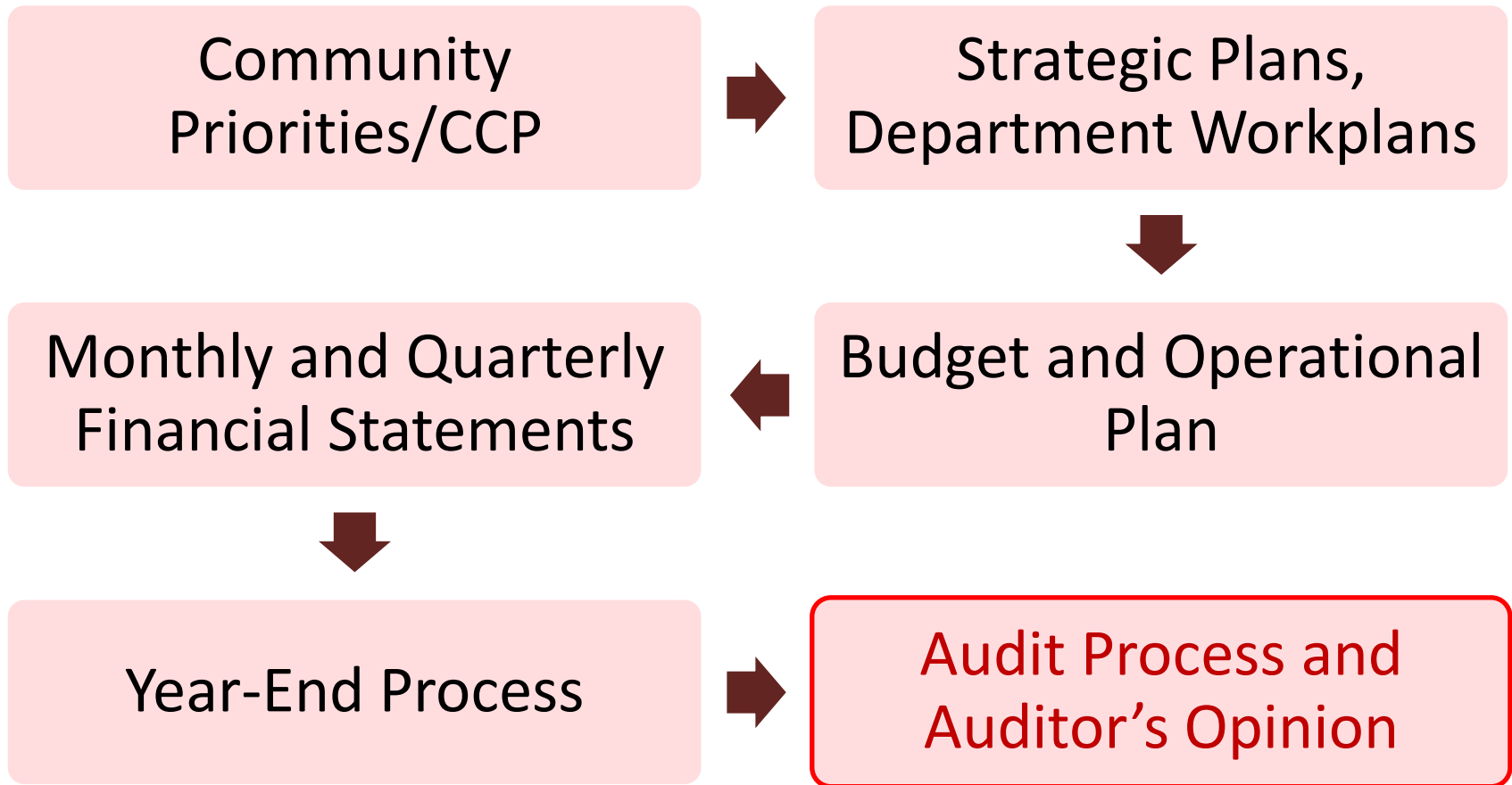
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1. Overview of the Audited Financial Statements

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The Financial Cycle



Purpose of the Audit

To provide independent “reasonable assurance” that the financial statements and any special purpose reports accurately reflect reality

Note: audit does not guarantee that everything is correct.

Financial Administration Law Requirements

- Use of Generally Accepted Accounting Principles (GAAP) for accounting, using the Public Sector Accounting Standards (PSAS)
- Independent auditor must be appointed annually to provide opinion on the financial statements
- An annual report must describe the operations and financial performance, including the audited financial statements

Audit Types

Type of Engagement	Procedures	Level of Assurance	Report
1. Compilation	Preparation of Financial Statements	None	Notice to Reader – Advises user that statements are UNAUDITED
2. Review	Limited procedures of enquiry, analytical & discussion of Financial Statements	Plausibility – limited and less than audit	Review Engagement Report
3. Audit	Extensive – including testing & third party verification	Highest Level	Auditors' Report – Expresses an Opinion

Audit Opinion – External Reporting

The Good	The Bad	The Ugly	The Very Ugly
Unqualified Opinion	Qualified Opinion	Adverse Opinion	Disclaimer of Opinion
Also called clean opinion. The financial statements are fairly presented in all material respects, the financial position and results of the entity.	The financial statements contain material misstatements or omissions. Readers should regard the statements with caution. The reason for the qualified opinion is provided.	The financial statements do not fairly present the financial position, results of operations and changes in financial position, as per GAAP. The reason for adverse opinion is presented	The auditor will not give an opinion, possibly because they don't trust the information or didn't have necessary information.

Responsibilities for External Reporting

Audit Report – Auditor’s Responsibility

Management’s Responsibility For Financial Reporting

Obtain sufficient appropriate audit evidence on activities

Issue a report acknowledging responsibility for reviewing and approving financial statements

Obtain reasonable assurance that financial statements are free from material misstatement

Chief and Council approve financial statements presented by management

Perform audit in accordance with Canadian Generally Accepted Auditing Standards, professional judgement and professional skepticism

Maintain systems of internal controls of high quality

Obtain understanding of internal controls & evaluate accounting policies, estimates & management disclosures

Financial information is relevant, reliable & accurate – assets safeguarded

Issue an audit report that includes an opinion, date City

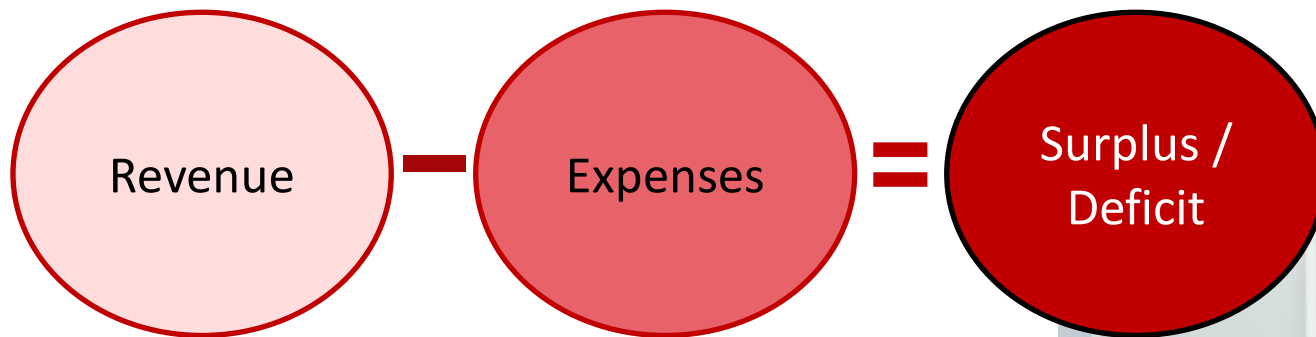
Sign the report and include as part of the year-end audited financial statements

External Financial Statement Components

Government Entity	Private Business Entity
Statement of Financial Position	Balance Sheet
Statement of Operations	Statement of Operations
Statement of Net Assets	Combined on Balance Sheet
Cashflow Statement	Cashflow Statement
Notes to the Financial Statements	Notes to the Financial Statements

Statement of Operations (Income Statement)

Simplest Form



Sample Statement of Operations

First Nation - Statement of Operations	Budget	2018-2019 Qualified	2017-2018
Audit Opinion			
Revenues	\$ 77,184,184	\$ 88,907,819	\$ 70,732,662
Expenses			
Amortization	\$ -	\$ 4,346,619	\$ 4,229,501
Community Service	960,000	-	-
Contractors	-	8,200,161	3,513,294
Capital Housing	3,402,277	-	-
CMHC Projects	375,475	-	-
Donations	-	1,687,060	1,225,625
Economic Development	415,595	-	-
Set funding Education	4,543,264	-	-
Interest and Bank Charges	-	11,118,548	6,762,272
Lands and Membership	684,672	-	-
Medical Programs	6,389,034	1,785,609	1,684,699
Office and Administration	8,124,429	1,927,038	1,968,009
Other	7,301,440	18,533,259	12,685,406
PHP, PS & Special Programs	5,607,230	-	-
Post Secondary	-	1,453,423	1,523,669
Professional Fees	-	2,150,179	6,859,130
Repairs and Maintenance	2,011,955	2,246,416	1,860,077
Salaries and benefits	7,692,357	26,864,999	25,501,553
School Operations	6,580,601	-	-
Social Assistance	7,790,482	6,434,028	6,172,762
Tobacco Tax	624,000	-	-
Travel	-	1,145,811	1,145,811
VLT Gaming Commission	4,224,134	-	-
Financing Initiative	5,963,908	-	-
	\$ 72,690,853	\$ 87,893,150	\$ 75,131,808
Annual Surplus (Deficit)	\$ 4,493,331	\$ 1,014,669	\$ (4,399,146)

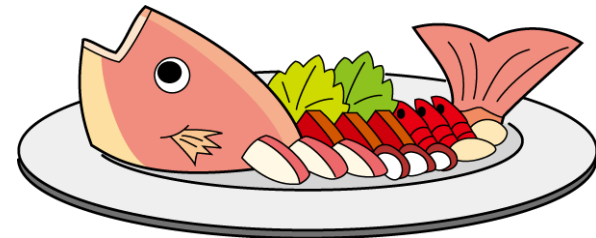
Statement of Financial Position (Balance Sheet)

Simplest Form

Financial Assets = 3 fish



**Less: Liabilities – One fish
owed to the
fisherperson**



= Equity = 2 fish left



Sample Statement of Financial Position

FIRST NATION	2018-2019	First Nation	2018-2019
STATEMENT OF FINANCIAL POSITION		BALANCE SHEET	
Financial Assets		Current Assets	
Cash in Bank	\$ 2,074,293	Cash in Bank	\$ 2,074,293
Restricted Cash	3,565,925	Restricted Cash	3,565,925
Accounts Receivable	20,482,849	Accounts Receivable	20,482,849
Due from Govt & Govt Orgs	19,328,258	Inventories	42,798
Long Term Investments	1,069,974	Prepaid Expenses	58,854
			26,224,719
	\$ 46,521,299	Long-term Investments	
Liabilities		Due from Related Par	19,328,258
Demand Loans	\$ 91,554,439	Long Term Investmen	1,069,974
Accounts Payable	8,806,754		\$ 46,622,951
Accrued Termination entitlement	2,059,198	Tangible Capital Asset	\$ 122,222,134
Unexpended Funding (Deferred Revenue)	10,593,511	Total Assets	\$ 168,845,085
Long Term Debt	8,135,131	Current L Demand Loans	\$ 91,554,439
		Accounts Payable	8,806,754
	\$ 121,149,033	Accrued Termination	2,059,198
Net Debt	\$ (74,627,734)	Unexpended Funding	10,593,511
			113,013,902
Non Financial Assets		Long-Ter Long Term Debt	8,135,131
Tangible Capital Assets	\$ 122,222,134		\$ 121,149,033
Inventories	42,798	Non Financial Assets	
Prepaid Expenses	58,854	Tangible Capital Asset	\$ 122,222,134
		Inventories	42,798
	\$ 122,323,786	Prepaid Expenses	58,854
Accumulated Surplus	\$ 47,696,052	Less debt	\$ (74,627,734)
			47,696,052
		Total Liabilities and Net Assets	\$ 168,845,085

The Cash Flow Statement

- Compares opening and closing cash balance on Statement of Financial Position
- Three components:
 - Operating Activities
 - Capital Activities
 - Financing activities

Sample Cash Flow Statement

First Nation	2018-2019	2017-2018	
Audit Opinion	Qualified		Owner: From Statement of Operations
STATEMENT OF CASH FLOWS			
Net inflow (outflow) of cash			
Operating Activities			
Annual Surplus (Deficit)	\$ 1,014,669	\$ (4,399,146)	Owner: From statement of operations - 67804 non amortization - expense
Adjustments for items not affecting cash amortization	4,278,815	4,184,948	
	5,293,484	(214,198)	
Net change in non-cash working capital (Note 18)	(23,373,812)	610,019	
Cash provided by (used) in operations	(18,080,328)	395,821	Owner: Sum Annual surplus to net change 5,293,484+ (18,080,328)
Capital Activities			
Purchase of capital assets	(35,243,262)	(7,445,823)	
Financing Activities			
Demand & long-term loan proceeds	48,611,599	43,918,105	
Long-term debt repayment	(1,418,754)	(5,997,246)	
Demand loan repayment	-	(9,185,128)	Owner: (18,080,328)+(35,243,262) +47,192,845 = (6,130,745) cash expended in operations.
	47,192,845	28,735,731	
Increase (Decrease) in cash and equivalents	(6,130,745)	21,685,729	
Cash and bank indebtedness beginning of the year	11,770,963	(9,914,766)	
Cash and bank end of year	\$ 5,640,218	\$ 11,770,963	
Represented by cash	\$ 2,074,293	\$ 6,118,772	
Restricted cash	3,565,925	5,652,191	
	\$ 5,640,218	\$ 11,770,963	
Supplementary information:			
Interest paid	\$ 562,936	\$ 1,111,716	Owner: Interest is shown separately as it is needed to extract for ratio calculations.

Notes to the Financial Statements

- Description of various accounting policies
- More detail about assets, liabilities, and equity items
- Additional disclosures of interest to the readers
- Attention to management letter from auditor on ways to improve financial operations
- Use of purchase orders prevent fraudulent invoices.
- Cross training of Finance Staff
- Management letter could call attention to excess cash and the need for investments.

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2. Analyzing Audited Financial Statements

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Management Statement of Responsibility

- Typically included with the audited financial statements
- States that the financial statements are the responsibility of management and have been approved by Council
- Also states that:
 - The Council is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements.

Any exceptions to the above should cause questions to be asked of Council and management.

Independent Auditor's Report

- Describes what was audited
- How the audit was performed
- Opinion as to whether the statements present fairly the financial position of the First Nation
- Qualifications that may limit the opinion of the auditor

Any opinion other than “unqualified” should be examined for the reasons, explanations and resolutions by management.

Financial Analysis

- The starting point for financial analysis is the financial statements.
- Financial analysis can be used to deepen the understanding and interpretation.
- Basic analysis includes comparing financial reports to a benchmark such as the budget or the financial report from the previous year.
- Other analyses may be used to further understand an organization's financial condition.

Results Analysis

Statement of Operation

- Surplus or Deficit
- Total Entity

Statement of Cash Flows

- Negative cash flow from operations

Statement of Financial Position

- Net equity or debt
- Liquidity/Working Capital

Variance Analysis

- Variance analysis is a comparison between actual results to the budget and previous period.
 - Funding, revenue and other cash inflows
 - Expenses, cash outflows
 - Cash balances
 - Receivable and liabilities

Key Notes for Understanding Financial Statements

- Understanding the Balance Sheet / Income Statements enhances leadership's financial competence.
- Understanding the variance between actual statements and budgetary figures increases financial skills and decision-making ability.

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3. Decision-Making

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Types of Decisions Financial Statements can Inform - External

Investors, Funders, Lenders	Consider the financial condition of the organization based on the financial statement
Funders, Regulators	Use the statements to monitor the financial strength or weakness of the organization
Community Government	Utilize the financial statements to support proposals for strategic initiatives and investment
Stakeholders, Members	Utilize the audited statements to assess the performance of Council and Management

Types of Decisions Financial Statements can Inform - Internal

- Audited financial statements may identify opportunities for growth, investment, or other strategic initiatives
- Financial problems or risks may be identified from audited statements
- Red flags indicating potential fraud may come to light
- Council may utilize the statements to assess management's performance

Examples of Questions to ask your Finance Function about Audited Financial Statements

- Were any control weaknesses identified during the audit?
- Were there any disagreements between management and the auditors?
- Were there any control breakdowns or policy breaches?
- Are there any risks or contingencies that are not reported in the financial statements?
- Are there any changes in business/operating conditions that could impact future results?



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Anwunikit

Niawen

Meegwetch

Mahsi

Ekosi

‘Doy-gg

Mussi Cho

Thank you



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