Audit Preparation – Common Audit Adjustments Q&A – May 20th, 2021

Question #1

I'm just wondering if other auditors do the same thing as ours do. The two largest reports they prepare are the Consolidated Audited Financial Statements (about 31 pages long) and a Consolidated Schedules of Revenue and Expenditures (90 pages long). The 90-page report is completely revenue & expenses statements for the 85 departments we have and there are no balance sheet pages, and technically this 91-page report is a "Notice to Reader" and not an audit. The 30-page audited report only has summaries of each Division of the FN, so there is just one page for all of one authority, and one page for all of the other authority. Seems like funders are mainly interested in the 30-page report, but I am not sure if want or if they are even aware of the 90-page report. On the 90-page report the capital purchases are shown as expenses, so many departments are close to break even, and then the auditors have some extra little departments they created where amortization and the capital additions adjustments are recorded. On the 30-page audited report the capital purchases are NOT recorded as expenses and are instead added to the Balance Sheet. I'm just wondering if other auditors do the same thing as ours do.

Back about 15 years ago our auditors (a different firm) only made one very large statement (about 110 pages), and I think in each department the capital additions were actually expensed, and at the bottom of each department page I think they added back the capital purchases to adjust things for the sake of capitalization of assets (maybe it was called Transfer to Capital Fund, or something like that). I don't think we have a thing called Capital Fund on our statements anymore, it was just an accounting thing...

The way that capitalization of assets always make it look like there are lots of surpluses is a bit misleading. It makes sense for profit-oriented companies that can sell off their capital assets, but for a FN the assets are things like schools, clinics, water & sewer systems, etc., and we also need to show we have actually spent all or most of our funding I know what is going on with this capitalization issue, but it sure can confuse things for others.

Answer:

- Historically there used to be just one audit. It's been split up into two parts (main audit of around 30 pages and program schedules of 90 – 120 pages) for two reasons:
  1. FN Financial Transparency Act (FNFTA) requirement to make FN audits available to the public only applies to the main audit part, not to the schedules. Program schedules remain confidential information and only need to be shared with funders and band members.
  2. Reporting standards requirement to separate unaudited program schedules and to attach a notice-to-reader report. As discussed in the earlier Understanding Financial Statement Audits webinar, program schedules aren't audited, they're just reviewed for general accounting accuracy.
- ISC require the main audit (30 pages) for compliance with FNFTA and for a general financial health review. Program schedules are used by funders for detailed program review and for determining surplus recoveries and carry overs.
- Capital funding reporting on the main audit follows Public Sector Accounting (PSA) standards and can be confusing. Under PSA, capital funding is reported as revenue and increase the annual profit/surplus. Spending of capital funding (construction costs) is reported as an asset on the balance sheet and doesn't affect the annual surplus. So technically we have an "inflated" annual surplus on the income statement (statement of operations) because it includes capital funding revenue but no construction costs. When we see a big surplus in a First Nation audit we may want to check how much of the surplus is from capital funding. We can refer to the Segment Disclosure note at the end of the main audit and check the surplus for the Capital Projects department. We would deduct that surplus from the total surplus on the statement of operations (income statement) to find out what the actual surplus for the year was.

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Question #2:
Our organization has recognized that HST is something that we are not familiar with. For example, we use contractors to provide archaeological services off reserve to businesses and corporations…technically, we should be charging HST for these services, how is the HST treated in the books and how is it paid to the government. As well, we have also been directed to submit HST claims for First Nation Organizations to the CRA…I know there are certain forms to be filled out, but was wondering what portion of the HST can be claimed for each category, e.g. accommodations.

Answer:

- We will have a webinar on HST in the near future and will review the rules and reporting requirements in detail.
- In general, First Nations and band owned entities don't pay HST for products and services delivered to/performed on reserve.
- HST exemption letter needs to be provided to vendors upon request.
- Important to review vendor bills for HST – many would charge in error.
- HST paid can be recovered as follows:
    - 100% of HST paid in error or on travel (flights, accommodations and meals) related to band management activities – using form GST189
    - 50% of HST paid off reserve using form GST66
- Whether a FN should charge HST on services it provides is determined by who and where service is provided to. In general, the only time we don't charge HST is when providing services on reserve to a band or band owned entity. If charging HST, can recover 100% of HST paid on related expenses. Will need to file an HST return and remit the net tax to CRA.
- CRA link with HST information:
  https://www.canada.ca/en/revenue-agency/services/tax/businesses/topics/gst-hst-businesses/charge-collect-indigenous-peoples.html
  Refer to the table at the link to determine if need to pay HST.
- If in doubt, call CRA GST Technical Unit at 1-800-959-8287