

**Health Canada
First Nations and Inuit Health Branch**

Audit Guidelines

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1. Introduction

Under a Consolidated Contribution Agreement-Integrated (CCA-Integrated), the accountability relationship between Chiefs and Councils and the Minister of Health reflects an approach based on the community having greater program and financial flexibility within a framework requiring more visibility and accountability to community members, and to Parliament. In its accountability to Parliament, the federal government reports on all activities that it has funded in every Department and on the results achieved. Similarly, in its accountability to community members, a First Nation's Council and administration are to report on where funds have been spent and what community members are getting in return.

These guidelines are intended to assist both FNIHB employees and First Nation and Inuit Recipients. This guide is also intended as an informative document to help First Nations and Inuit community members and outside parties understand the requirements and obligations with respect to contribution programs, as well as outlining the interaction between the community's administration and FNIHB.

2. Scope

The purpose of these guidelines is to describe the audit requirements of Health Canada's CCA-Integrated. These guidelines discuss several basic audit concepts, and are intended to provide the reader with a basic understanding of audits, and the relationship to the contribution agreement, as well as addressing audits performed on behalf of the Recipient, and other annual reports. Ministerial Audits are not addressed in these guidelines. These are addressed in the separate *FNIHB Ministerial Audit Guidelines*.

3. Definitions

In the context of this Guide, relevant terms are defined as follows:

Audit

This means an audit conducted by an independent accredited auditor with an opinion expressed on:

- fairness of the financial statements; and
- adequacy of financial controls in place

Financial Statements

This means statements that are prepared to provide their users with reliable information concerning the financial affairs of an organization. In the case of First Nations, users of the statements can be banks, the federal government, other funding agencies and First Nations members. The statements also provide the First Nation with financial information concerning organizations that are accountable to the First Nation. "Financial statements should demonstrate the accountability of a First Nation for the financial affairs and resources entrusted to it." (Source: A First Nation Guide to Generally Accounting Principles prepared by AFN-CGA Working Group).

Fiscal Year

This means a one year period commencing April 1 of one calendar year and ending March 31 of the subsequent calendar year.

Independent (Recipient Initiated) Audit

This means an Independent Auditor contracted by the Recipient to conduct an audit of the Recipient's financial processes, controls, accounts and records.

Independent Auditor

This means an auditor who is independent from the Recipient and is a member of an accounting body that is recognized by the Province/Territory in which the Recipient has its administrative offices.

Minister

This means the Federal Minister of Health

Ministerial Audit

This means an audit of the Recipient's accounts, records and supporting documentation conducted by the Minister in accordance with the terms and conditions of the contribution agreement.

Recipient

This means an organization that has entered into a Health Services Agreement (including: an Indian Band, a district or Tribal Council, an Indian or Inuit health board, an Indian or Inuit organization, or a corporation).

Region

This means the office of the Regional Director, First Nations and Inuit Health Branch, Health Canada.

4. General Information - Audits

What is an Audit?

In general terms, an audit is an examination of the records and financial statements of a business or organization by an independent accountant, for the purpose of expressing an opinion as to whether the financial statements present fairly the financial position at a given date and results of operations and its cash flows ending on that date in accordance with generally accepted accounting principles.

Why have an audit performed?

Generally an audit serves two purposes. It provides an assurance to the reader of the financial statements, that these reports, including the Statement of Financial Position (Balance Sheet), and Statements of Revenue and Expense, are a fair reflection of the current financial position of the organization, and a fair representation of the revenues and expenditures stemming from the operations of the organization for the period covered. The audit also is a management tool. The management letter prepared by the independent auditor highlights weaknesses in accounting and governing financial management processes and assists management (the Recipient) in developing an action plan to correct any weaknesses.

Health Canada requires that First Nations entering into a CCA-Integrated have their financial records audited each year. The CCA-Integrated represent a greater degree of control transferred from Health Canada to the Recipient. This increases the need to assure not only the government, but also the Recipient's community members that the financial reports are a fair representation of the Recipient's financial position and activities. Furthermore, since the Recipient has taken on more responsibility and associated financial risks, it is important that the Recipient is aware of any weaknesses in its overall financial management.

Types of Audits

As stated in the definitions, there are two types of audits that a Recipient may encounter over a period of time in the context of the CCA-Integrated. These are an Independent Audit (Recipient Initiated) and a Ministerial Audit (Health Canada Initiated). It is important to understand the difference between the two.

Independent Audit (Recipient Initiated)

The *Accounting and Audit Requirements* section of the CCA-Integrated requires that the Recipient be audited by an independent auditor who is a member of an accounting body that is recognized in the Province / Territory in which the Recipient has its administrative offices, and that the audit is conducted in accordance with the section of these guidelines on Recipient Initiated Audits.

In this type of audit, the Recipient will contract an independent auditor to perform the audit. Generally the auditor will examine the financial processes that the Recipient has in place to manage its financial operations. The auditor will also examine the controls that the Recipient has in place to ensure that they accurately capture financial transactions and to safeguard financial assets. The auditor will examine the accounts to determine whether transactions have been properly recorded. And finally, the auditor will examine the records to determine whether there is appropriate documentation to support financial transactions, such as payments and receipts of funds. Upon completion, the auditor will prepare a report that will express an opinion as to the audit findings.

Generally, when the auditor has cited weaknesses in either the financial management operation processes, management controls, the accounts or supporting documentation, the Recipient should develop an action plan to implement the corrective measures.

Ministerial Audit (Health Canada Initiated)

Within each of the three types of Contribution agreements that Health Canada uses, CCA -General, Integrated and Transfer, is a section referred to as the Minister's Right To Audit. This "right" provides the Minister of Health Canada the right to conduct an audit of accounts and records of the Recipient or any Agency of the Recipient, relating to the funding provided under this Agreement in order to ensure compliance with the terms and conditions of the Agreement.

While the reasons for the audit are the same, the main difference here is that the audit is conducted not only to determine whether the financial statements of the Recipient represent a fair reflection of the Recipient's financial position and its operations, but also to provide assurance that the activities and financial statements are a result of carrying out the activities within the terms and conditions of the Contribution Agreement. In a Ministerial Audit, the auditor(s) will examine whether the Recipient has carried out its operations in accordance with the contribution agreement. This type of audit focusses only on the financial activity and management processes as they relate to the programs listed under the agreement.

The auditor also evaluates the efficiency and effectiveness of program management, assesses the quality of financial control measures and mechanisms in place to manage risk effectively, and assures compliance with Treasury Board and FNIHB policies and rules and regulations related to the provision of Health Service in Canada.

Along with determining whether the financial and other reports required under the agreement were completed accurately, the auditor may examine (where the agreement stipulates a requirement) for instance, that communicable disease reports have been forwarded to the appropriate provincial agency, that adequate liability insurance has been acquired, that professional staff, such as Registered Nurses are registered with their provincial nursing associations. The Auditor will also examine whether the resources were expended for the intended activities under the agreement. Upon completion, as is the case with the Independent audit, the auditor will prepare a report that will express an opinion as to the Auditor's findings. Please refer to the *FNIHB Ministerial Audit Guidelines* for more detailed information on Ministerial Audits.

The expression of an Auditor's opinion will normally take one of three forms. An Unqualified Opinion, a Qualified Opinion or a Denial of Opinion (Adverse Audit Opinion).

Unqualified Opinion

An auditor will provide an unqualified opinion, when, based on the examination it has been determined that the financial reports fairly represent the financial position and activity of the organization in accordance with Generally Accepted Accounting

Principles (GAAP).

Qualified Opinion

This is a statement written upon the front page of an audit done by a professional auditor. A qualified opinion suggests that the information provided was limited in scope and/or the entity being audited has not maintained GAAP standards.

An auditor will provide a qualified opinion, when, based on the examination it has been determined, that the financial reports, subject to exceptions noted, are a fair reflection of financial position and results of operations. In certain cases, the exceptions can be material enough to warrant the restatement of the financial reports to address the effect the deficiency has played upon the financial position, financial activity, or both.

Denial of Opinion (Adverse Audit Opinion)

This is a professional opinion made by an auditor indicating that an organization's financial statements are misrepresented, misstated, and do not accurately reflect its financial performance and health.

An auditor will in some cases, deny an opinion, if, based on the review, it was not possible to determine with any confidence the fairness of the organization's financial reports. Events such as the organization failing to maintain adequate accounts, and significant lack of records to support transactions would be cause for a denial of opinion.

5. Audit Requirements - Independent Audit (Recipient Initiated)

Auditor Qualifications

The Recipient will enter into a contract with a qualified auditor to perform the audit. In order to be considered a qualified auditor the auditor must be:

- independent and must not be an employee of the Recipient; and
- qualified and be a member of a recognized accounting body in the appropriate Province or Territory.

The Audit Contract

The Recipient will enter into a contract with an individual or a firm to obtain auditing services. The audit contract should include:

- a summary of the Recipient's responsibilities;
- a summary of the Auditor's responsibilities, including the deliverables (such as the Report on Health Expenditures) and the time frame/due date for the Audit Report;
- the purpose and nature of the audit;
- the limitation of the audit;
- the scope of the audit, including specifics to be addressed and reports to be produced;
- the conditions for additional audit or financial services to be provided; and
- a copy of these guidelines (for the Auditor's reference);
- First Nations may wish to consider a payment hold back clause within their contracts as an additional measure to ensure that all terms and conditions have been fulfilled by the contracted auditor.

The Audit Deliverables

Audit Report

The audit report addresses the adequacy of the financial controls and certifies whether generally accepted accounting principles have been followed.

The auditor's report will include the following:

- an opinion regarding the Accuracy of Financial reports and adherence to Generally Accepted Accounting Principles; and
- the following schedule: Report on Health Expenditures (Appendix B)

Note: These two reports provide disclosure and visibility in the Recipient's audit report as to funds expended on health programs and services. Some Recipients provide consolidated audit reports for their entire operation and Health Canada's revenue and expenditures are highlighted but in a summary manner. For a completed sample of the Auditor's Derivative Report please refer to Appendix A. Another option is for the Recipient to provide a full audit report solely for Health Canada's programs with the appropriate details.

Report on Health Expenditures (Appendix B)

The "Report on Health Expenditures" will show total health program expenditures for the past fiscal year under the program/services outlined in the agreement between the Recipient and Health Canada. Recipients may choose to use the existing FNIHB reporting format as the basis for completing the "Report on Health Expenditures", (Appendix B). As such, for information purposes only, Appendix C, lists the Programs/Services.

The last section of the "Report on Health Expenditures" is a disclosure, for the same fiscal period, of the funds received from other organizations and governments for health purposes.

Note: The "Report on Health Expenditures" (Appendix B) will be incorporated in the auditor's report as a schedule.

Recipient Responsibilities

The *Accounting and Audit Requirements* section of the CCA-Integrated (Phase I and II) Agreement requires that the Recipient:

- accurately record program information and financial transactions and prepare all

- reports and statements as stipulated in the agreement;
- keep and maintain all accounts, financial and supporting documentation for a period of seven (7) years unless advised otherwise by the Minister in writing
- make program, financial and administrative records and reports available to the Auditor and provide assistance to the Auditor, as necessary;

The Recipient should avoid duplication of effort and resources, by coordinating and planning this audit with all other audits being conducted for other federal departments, and make available to community members copies of the above noted reports

Health Canada Responsibilities

The *Accounting and Audit Requirements* section of the CCA-Integrated (Phase I and II) requires that FNIHB advise the Recipient within 30 days of the receipt of the audit report.

The FNIHB region office is responsible for reviewing the report, including any attachments and ensuring that proper follow-up action is taken with respect to the opinion and observations expressed by the auditor by:

- communicating with the Recipient concerning the auditor's opinions and observations;
- at the request of the Recipient, assisting the Recipient to develop a plan for corrective action, if required; and
- monitoring on a regular basis, and through subsequent audits, whether corrective action has been taken by the Recipient.

Audit Default

In cases where the Recipient defaults in its obligation to provide the Minister with an audit report, the *Remedies on Default* section of the CCA-Integrated permits the Minister to:

- require that an independent auditor, recognized in the Province in which the Agreement was executed, be appointed immediately by the Recipient, at the Recipient's cost, and that the audited financial statements be delivered within a reasonable time as the Minister may determine; or
- appoint an independent auditor recognized in the Province in which the agreement was executed and in which case:
 - the Recipient will provide the auditor, appointed by the Minister, with full access to its financial records and provide such other information as the auditor may require to perform the audit; and
 - the Recipient will reimburse Health Canada for all costs incurred in having the audit conducted.

Appendix A
Sample Completed Auditor's Derivative Report

Sample Only

GLASGOW & BROWN
CHARTERED ACCOUNTANTS
Peter Glasgow, CA
Sue Brown
125 5th St.
Edmonton, Alberta

To the Minister of Health
c/o Regional Director

Albert Region

First Nations and Inuit Health Branch
Health Canada

I have audited the (consolidated) statement of financial position of Earth First Nation as at March 31, 2003 and the (consolidated) statements of revenue and expenditures and changes in financial position for the year then ended. These financial statements are the responsibility of the Earth First Nation. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these (consolidated) financial statements present fairly, in all material respects, the financial position of Earth First Nation as of March 31, 2003 and the results of its operations and its change in financial position for the year then ended in accordance with generally accepted accounting principles.

Glasgow and Brown
Edmonton, Alberta
June 15, 2003

Chartered Accountants
(Signed).....

CA/CGA/CM
A_____

Appendix B
Schedule - Report on Health Expenditures

FIRST NATION
HEALTH SCHEDULE OF REVENUE AND EXPENSE (SAMPLE)
APRIL 1, 2002 TO MARCH 31, 2003

	CURRENT YEAR		PRIOR YEAR
	BUDGET	ACTUAL	ACTUAL
REVENUE			
<i>Health Canada (HC)</i>	\$500,000	\$500,000	\$490,000
<i>Indian and Norther Affairs Canada (INAC)</i>	20,000	20,000	15,000
<i>Other Revenues</i>	10,000	15,000	3,000
	<u>530,000</u>	<u>535,000</u>	<u>508,000</u>
EXPENSE			
<i>Integrated Community Based Health Services</i>			
<i>Management & Support</i>	42,000	42,000	42,000
<i>Community Health Representative (CHR)</i>	40,000	40,000	40,000
<i>Operations & Maintenance (O&M)</i>	35,000	35,000	35,000
<i>National Native Alcohol & Drug Abuse Program (NNADAP)</i>	48,000	48,000	48,000
<i>Building Healthy Communities (BHC)</i>	95,000	95,000	85,000
<i>Targeted Programs</i>			
<i>Home & Community Care (H&CC)</i>	110,000	110,000	110,000
<i>Prenatal Nutrition</i>	15,000	15,000	15,000
<i>Non Insured Health Benefits Program</i>			
<i>Direct Transportation</i>	90,000	90,000	90,000
<i>Transportation Administration</i>	25,000	25,000	25,000
<i>Other</i>			
<i>INAC Project</i>	20,000	20,000	15,000
<i>FN Project</i>	10,000	10,000	0
	<u>530,000</u>	<u>530,000</u>	<u>505,000</u>
EXCESS (SHORTFALL) OF REVENUE OVER EXPENSE	\$0	\$5,000	\$3,000

- Notes:**
- 1) Example above is to be used as a guide in preparing schedule.
 - 2) Revenue and expense must be presented by source.
 - 3) Individual Health Canada Programs must be reported separately.

Appendix C

List of FNIHB Programs/Services

NOTE: This is a sample list provided to assist the Band choosing to utilize the FNIHB activity reporting format to complete the "Report on Health Expenditures" (Appendix B). Management and Support Services.

Health Services

Aboriginal Diabetes Initiative

Aboriginal Headstart

Brighter Futures

BHC -Mental Health Crisis Mgmt

BHC -Solvent Abuse

Canada Prenatal Nutrition Program

Community Health Promotion and Injury/Illness Prevention

Community Health Primary Care (CHPC)

Environmental Health Program

Fetal Alcohol Spectrum Disorder (FASD)

First Nations and Inuit Health Information System (FNIHIS)

First Nations and Inuit Home and Community Care (FNIHCC)

Health Careers

Health Consultations

HIV/AIDS

National Native Alcohol and Drug Abuse Program (NNADAP)

Non-Insured Health Benefits (NIHB)

Pre-transfer

Tobacco Control

Tuberculosis Elimination Strategy

Capital

Treatment Centres