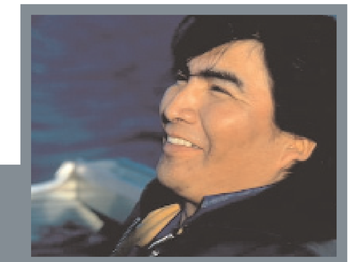
HOUSING MANAGER TRAINING PROGRAM



First Nations

Using Audits and Financial Statements

Canada

CMHC SCHL

First Nations

USING AUDITS AND FINANCIAL STATEMENTS

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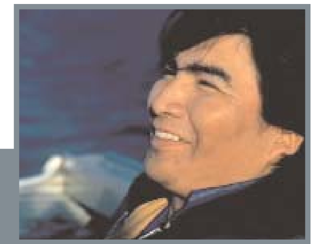
HOUSING MANAGER TRAINING PROGRAM



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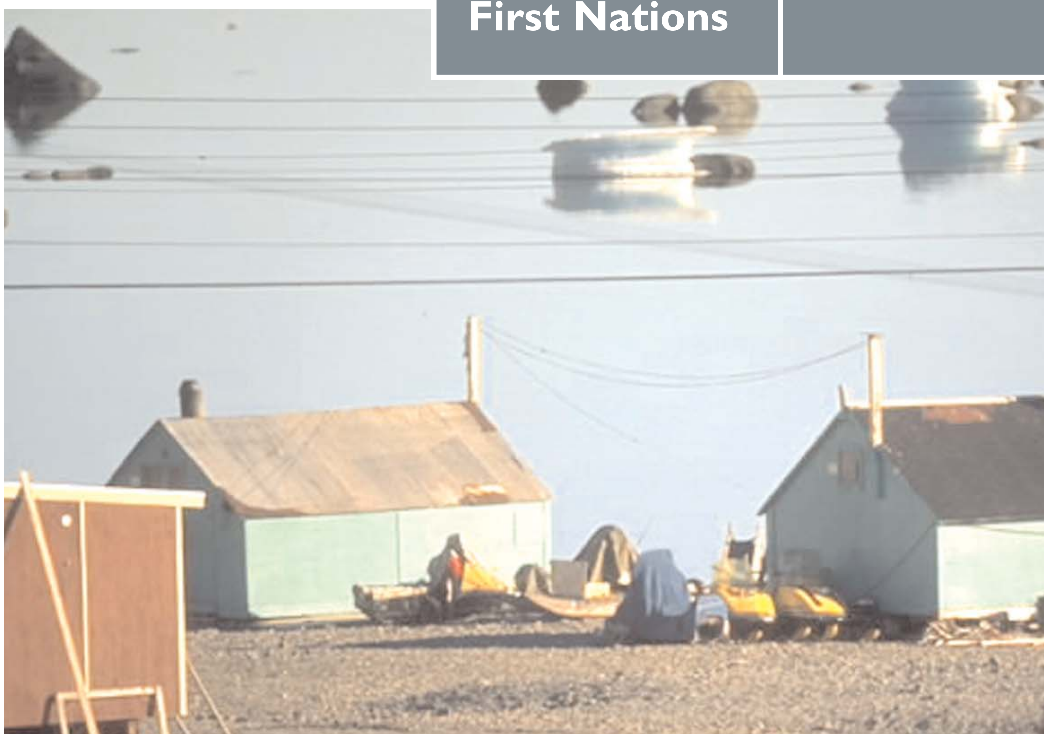

USING AUDITS AND FINANCIAL STATEMENTS

Participant's Manual

Participant's Workbook

23-09-05

CMHC—HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) is the Government of Canada's national housing agency. We help Canadians gain access to a wide choice of quality, affordable homes.

Our mortgage loan insurance program has helped many Canadians realize their dream of owning a home. We provide financial assistance to help Canadians most in need to gain access to safe, affordable housing. Through our research, we encourage innovation in housing design and technology, community planning, housing choice and finance. We also work in partnership with industry and other Team Canada members to sell Canadian products and expertise in foreign markets, thereby creating jobs for Canadians here at home.

We offer a wide variety of information products to consumers and the housing industry to help them make informed purchasing and business decisions. With Canada's most comprehensive selection of information about housing and homes, we are Canada's largest publisher of housing information.

In everything that we do, we are helping to improve the quality of life for Canadians in communities across this country. We are helping Canadians live in safe, secure homes. CMHC is home to Canadians.

Visit us at www.cmhc.ca

You can also reach us by phone at 1 800 668-2642
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Acknowledgements

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Photos courtesy of Indian and Northern Affairs Canada and Health Canada

First Nations Housing Manager Training Program

USING AUDITS AND FINANCIAL STATEMENTS

PARTICIPANT'S MANUAL

TABLE OF CONTENTS

Overview—Housing Managers Training Program

Building the capacity of First Nation housing managers

The construction and maintenance of affordable, quality housing is a priority issue for First Nations across Canada.

A positive partnership

Your Housing Manager Training Program is the result of an innovative partnership between Canada Mortgage and Housing Corporation (CMHC) and Anokiiwin Training Institute.

Indian and Northern Affairs Canada (INAC), Western Economic Development (WED) and Human Resources Development Canada (HRDC) supported the partnership. The result is a highly focused, culturally relevant, challenging and rewarding training program targeted to the specific needs of First Nation Housing Managers just like you.

The Housing Manager Training Program

The primary objective of the First Nations Housing Manager Training Program is to help Housing Managers strengthen the skills and experience they now have and to help them develop new skills through a combination of classroom and hands-on learning.

> **Helpful Hint**
>
> Housing programs include programs started or sponsored by First Nations, governments and government agencies and private organizations. Housing programs are usually long-term and usually focus on more than one goal.
>
> Housing projects include short-term activities that have defined start and end dates. The activities include specific actions that support the achievement of housing programs and projects. They usually focus on a single goal or a few goals.

Strengthening the capacity of First Nations housing managers

As First Nations regain more control over governance and administration of their own affairs, Housing Managers take on increased responsibility for all elements of First Nation housing programs. High-quality training, with a special focus on the broad range of skills that Housing Managers need to effectively manage housing, is a great help to individuals in developing and strengthening the skills they need for their role.

The ability of Housing Managers to effectively manage housing programs, projects and activities depends in large part on their knowledge and skills and their commitment.

This Module is part of a comprehensive training program specifically designed to help Housing Managers acquire the knowledge and develop the skills they need to put their commitment to positive use.

The Housing Manager Training Program gives you the opportunity to develop practical management skills that are based on a combination of theory and practical application. The specific objectives are to provide

- First Nation Housing Managers with the practical knowledge and skills they need to manage programs, projects and activities
- an introduction to general, transferable management concepts and theories

- a culturally relevant learning experience for First Nation Housing Managers
- practical, professional development for Housing Managers that fits into work schedules and takes as little time as possible away from their communities and work

The Housing Manager Training Program is made up of a number of individual modules. Together, the Modules are a complete training program. Separately, each Module is an individual Workshop.

This highly interactive approach to learning new skills encourages you to test new ideas, fine-tune skills and share experiences and expertise with other Housing Managers in a supportive learning environment.

The Housing Manager Training Program is delivered through traditional and innovative learning activities, including

- facilitated classroom training in both urban and community-based programs
- facilitated Workshops (an average of one week of Workshops every month on an ongoing basis) delivered through both urban and community-based programs
- a combination of both classroom training and facilitated Workshops

The developers of the Housing Manager Training Program are now working on Internet-based, self-paced, computer-based, independent study workshops.

Successful participants will be better managers of all types of housing program activities, including operation, construction, maintenance, financial management and client counselling.

The Housing Manager Training Program depends upon a blend of quality curriculum, professional delivery and your motivation. The fact that you are taking part in the Workshops clearly shows that you are motivated to learn and that you are committed to doing the best job possible.

Training that works for you

The Housing Manager Training Program recognizes that there is a need for common understandings that can be translated into relevant activities for all First Nation Housing Managers. You will learn the basic theory behind many of the duties and responsibilities that all Housing Managers share. Practical exercises in each workshop give you the opportunity to try out that theory on specific issues you must deal with in your own community.

This is what the "**Helpful Hints**" and "**Interesting Facts**" boxes look like.

This is what a reference to another module looks like.

The *Participant's Manual* is a DETAILED reference document to use in the Workshop.

Their real value comes later, when you return to your community and your job. The *Manuals* is are a permanent reference you can refer to repeatedly in response to community issues, problems and opportunities.

Each *Participant's Manual* includes

- a table of contents
- an overview of the Housing Manager Training Program
- an overview of the entire Module
- an overview of each Chapter
- reference to exercises, test, quizzes and projects
- "Interesting Facts" and "Helpful Hints"
- references to other Modules for information on specific subjects
- an optional glossary or list of words and terms with their definitions

Each *Participant's Workbook* includes real-life exercises and activities. These hands-on exercises ensure you understand how to apply the theory you are learning to your own circumstances. Completing the exercises and activities with other participants gives you a chance to learn from each other as you share common concerns and seek advice on individual problems.

Making Workshops work for you

In most cases, the Housing Manager Training Program is delivered through individual *Workshops* on specific topics. The curriculum and exercises for the *Workshops* are designed specifically for a Workshop presentation. Making the best use of those materials requires your full participation.

The general guidelines for the *Workshops* include

- confirming attendance requirements for the Workshop (usually required by the sponsor)
- requirements for passing quizzes and tests, and completing exercises and projects (usually required by the sponsor)
- start time, break times, lunch time and finish time
- procedures for group discussions, exercises and individual work
- respect for other participants
- appropriate use of facilities
- sharing ideas and comments constructively
- any emergency procedures
- other guidelines set by the sponsor or the group

The Workshop facilitator will review these guidelines and discuss any additional rules your group feels will help your Workshop work better. You should make certain that you know and meet your sponsor's requirements.

You will get out of the Workshops what you put in. Workshops are designed to encourage you to be actively involved and to encourage the others in your Workshop to take an active part. Each of you have your own experience and expertise to share. Your active involvement makes the best use of those experiences and knowledge.

Putting it all into perspective

The Housing Manager Training Program is more than just learning new things for the sake of learning itself.

The program helps Housing Managers do their work better and more effectively. It does not end there. The program also helps you, as a Housing Manager, to help all the people in your community enjoy access to affordable, healthy, high-quality, well-maintained housing.

For more information on the First Nations Housing Manager Training Program, please contact your regional Canada Mortgage and Housing Corporation office.

To find the address, telephone number and fax number of the CMHC office closest to you, visit this website:

http://www.cmhc-schl.gc.ca/en/contact/contacten_002.cfm

Using audits and financial statements—module overview

This module is an overview of two important types of financial management tools: financial auditing and using financial statements. Each is outlined separately: financial auditing is explained and then using financial statements is discussed.

Using Audits and Financial Statements is the fourth financial management Workshop in the Housing Managers Training Program. Other Workshops are

- Introduction to Financial Management
- Basic Budgeting
- Basic Bookkeeping

At the end of this Workshop you will be able to describe

- the important role that financial auditing plays in an organization
- how to use financial audits for internal financial control purposes
- how to work with external financial auditors
- how to read financial statements and use them for making sound decisions in your organization.

Exercise 1—Participant Introductions

In this exercise, you introduce yourselves to each other. Your facilitator will explain how to make those introductions.

Exercise 2—Participant expectations

In this exercise, you list what you hope to learn in this Workshop. Your facilitator will record the expectations on a flip chart so you can refer to them during the Workshop.

Chapter One—Overview of Financial Management

Overview

Financial auditing is one of the four components of financial management. Understanding the four components and how they work together is an important step in ensuring that sound financial management decisions are made.

After completing this Chapter, you will be able to

- identify the four components of financial management
- understand how the four components work together for sound financial management

Things to think about when reviewing this Chapter

- Are the four components of sound financial management evident in your housing organization?

Section One—The Four Components of Financial Management

Financial auditing is one of the four components of financial management. Financial management is the formal practice of planning, organizing, executing, coordinating, monitoring, forecasting and exercising control over all an organization's financial activities.

Figure 1 shows the four components of financial management

1. **Budgeting**—Planning, goal-setting and controlling financial transactions
2. **Accounting**—Data entry, report, analysis and advice on financial matters
3. **Auditing**—Review and control of financial activities
4. **Decision-making**—Using financial data to make effective decisions

Figure 1—Main components of financial management

An essential element in making good decisions for any organization is developing and putting in place appropriate financial management policies, procedures and systems. Sound financial policies, procedures and systems require planning, budgeting, accounting and auditing tools and techniques. Budgeting, accounting and auditing tools give managers different sets of needed, valuable financial information.

The four main components of financial management require coordination among the four and proper functioning of each of the four. Effective budgeting, accounting and auditing alone cannot ensure organizational success—proper decisions must also be made. For the same reason, good decisions cannot be made without the appropriate financial tools.

Exercise 3—Assessing your knowledge (Part 1)

In this exercise, you describe your knowledge and experience in financial auditing. You will be required to hand in this worksheet once completed.

Exercise 4—Assessing your organization (Part 1)

In this exercise, you identify and describe your organization's auditing practices. Be prepared to share your responses with the group.

Chapter Two—Overview of Financial Auditing

Overview

Financial auditing is a fundamental component in financial management for all organizations.

For First Nation housing organizations, financial audits are required annually as part of normal Band operations. Understanding the various tools within the auditing "toolbox" is an important step in ensuring that sound financial management decisions are made.

Chapter two is designed to give Housing Managers a basic understanding of how to use financial auditing tools effectively. It gives an overview of basic auditing practices and processes, from preparing audits to administering financial audits to reporting their results.

After completing this Chapter, you will be able to

- identify the two main types of audits (internal and external)
- understand the importance of internal audits
- understand the concept of sampling in design and implementation of internal audits
- identify the basic steps in conducting an internal audit
- understand the importance of external audits
- identify the most effective ways to work with external auditors

Things to think about when reviewing this section

- Has your organization ever considered conducting an internal financial audit? An external audit?
- How is your housing organization staff involved in external auditing?

Section One—Auditing Overview

Financial auditing is the monitoring and controlling of an organization's accounting process. Audits can be completed by an independent, outside person or by someone from within the organization, depending on the situation and the organization's needs.

A financial audit does any or all of the following

- examines accounting records and statements to protect against fraud and error
- ensures that the organization's financial statements are accurate and complete and prepared in accordance with generally accepted accounting principles (GAAP)
- monitors, controls and verifies the accounting process within organizations
- assesses whether the organization met its budgetary expectations

There are two main types of financial audits

- internal financial audits are regular and can be conducted by individuals within the organization—managers, accountants and other staff—as well as teams or committees—"a financial audit committee"
- external financial audits are periodic and conducted by certified accountants who are not employees of the organization—"external financial auditors"

Both internal and external audits focus on reviewing the accounting of past financial experience in order to improve future financial decision-making.

Financial audits can be investigative if there is reason to believe there has been improper financial management.

In most instances, the motivation for internal and external audits is an organization's desire to evaluate and improve financial performance and operations.

An important note: the term "audit" is also used in many non-financial situations. It is important to understand that financial auditing is only one type of audit. An audit deals with gathering information and then using this information for internal control purposes.

Private companies use "process audits" and "quality audits" to determine if their production systems are doing what they are supposed to be doing and if their products reach and maintain their expected quality standard. With certification systems, such as ISO (International Organization for Standardization) and CSA (Canadian Standards Association), expanding to many different industries, companies and organizations are regularly audited to verify that they comply with certification requirements.

To some people, an audit is an investigation into suspicions of theft. While this may sometimes be the case, most audits have nothing to do with theft.

Some people automatically think of forensic audits, which are a very specialized financial audit that supports legal proceedings.

It is important to note that financial auditing is just one type of audit. This is especially true of internal auditing. There are four main types of auditing used for internal control

1. **Performance audits**—evaluate how the company is using its resources
2. **Compliance audits**—evaluate whether company policies are being followed
3. **Financial audits**—evaluate whether financial records are being compiled correctly
4. **Computer system audits**—evaluate whether the organization's computer system is functioning properly

Table 1 compares financial and performance audits.

Financial audit	Performance audit
• Verifies accuracy and reliability of financial records • Assesses compliance with laws and internal controls • Evaluates efficient and effective use of resources • Verifies the protection of organization assets	• Assesses performance of the organization • Measures efficiency and effectiveness of operations • Measures whether policy and procedures were followed • Measures whether goals and performance targets were achieved • May incorporate any or all areas included in a financial audit

Table 1-Comparing financial and performance audits

Section Two—External Financial Audits

An external financial audit is an evaluation of an organization's financial records conducted by an outside, independent certified accountant—that is, someone who is not an employee of the organization.

External financial audits can be annual and planned well in advance, or used only in certain situations, such as a financial crisis within an organization.

For First Nations, the federal government requires an annual external audit for each First Nation organization that receives more than $30,000 in federal funding. Organizations that receive less than $30,000 must file a statement of accounts.

In many cases, external audits evaluate an organization's financial statements. In these cases, the role of the external auditor has two basic components

- to provide an independent, unbiased and professional perspective
- to provide a professional opinion on the fairness of the financial statements according to GAAP

Before the external financial auditor's work begins, management usually prepares a statement that tentatively approves the completed, but unaudited, financial statements (Exhibit 1 is an example of a management statement).

The external auditor determines whether—in the auditor's opinion—management's financial statements accurately, completely and properly represent the organization's true financial standing.

Following the investigation, the financial auditor writes a report. It is important to note that the financial auditor's report is only an opinion based on a judgment and not a guarantee that the organization's financial statements fairly represent its financial performance.

ALL NATIONS FIRST NATION
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING
MARCH 31, 2002

The accompanying financial statements of the All Nations First Nation are the responsibility of Band Administration and have been approved by the All Nations *Chief and Council*.

The *Finance Director*, in accordance with generally accepted accounting principles, has prepared these financial statements. Financial statements are not 100 per cent precise since they include certain amounts based on estimates and judgments. When alternative accounting methods exist, the *Finance Director* has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly in all important areas.

All Nations First Nation maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the First Nation's assets are appropriately accounted for and adequately protected.

The All Nations First Nation *Chief and Council* is responsible for ensuring that the *Finance Director* fulfills his/her responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. Assisting the *Finance Director* is the *Finance Committee*.

The *Finance Committee* reviews the First Nation's financial statements and recommends their approval to *Chief and Council*. The *Finance Committee* meets periodically with the external auditors to discuss internal controls over the financial reporting process. Other issues discussed include auditing matters, financial reporting issues, the annual report, the financial statements and the external auditor's report. The *Finance Committee* reports its findings to the *Chief and Council* for consideration when approving the financial statements for issuance to the Members. The Finance Committee also recommends which external auditor to hire.

The financial statements have been audited by A1 Chartered Accountants in accordance with generally accepted auditing standards on behalf of the members. A1 Chartered Accountants have full and free access to the *Finance Committee*.

Exhibit 1—All Nations First Nation management statement about financial statements

The external auditor's report has three standard paragraphs.

Paragraph 1 identifies the organization, the set of statements and their date and states that they are the responsibility of management and that the financial auditor's responsibility is to express an opinion.

Paragraph 2 outlines how the auditors reached their opinion, stating in particular that they followed GAAP in their assessment.

Paragraph 3 gives the auditor's opinion about the fairness of and adherence to GAAP of the statements.

Sometimes smaller organizations (usually smaller companies) have a "review" of their financial statements. For a review, a professional accountant assesses the financial statements but does a limited verification of certain transactions in order to identify major problems. Instead of an auditor's report, there will usually be a letter from the accountant or accounting firm stating that something less than an audit has been conducted.

In these cases, it is important to read the letter carefully in order to properly understand what exactly has been reviewed and the degree of assurance and reliability the accountant is offering.

In many cases, an organization will have financial statements that are entirely unaudited. Reliance on such statements depends entirely on the reader's confidence in the people who prepared the statements.

The annual external audit the federal government requires is conducted following the fiscal year. Because the audits are annual, it makes sense for First Nation communities to establish a general system for conducting audits the best way possible. A general system should include the following

- provisions for appointing an external auditor
- provisions for ensuring that the auditor has proper access to the required financial information
- provisions for ensuring that the external financial auditor has appropriate instructions
- provisions for informing Band members about the audit
- provisions for Band members to access the audit

Exhibit 2 briefly describes the All Nations First Nation general system.

The All Nations First Nation Chief and Council will appoint, by band council resolution, an external financial auditor at the annual general meeting to audit the books and records of Band operations for the completed fiscal year. The external financial auditor will be a member of a recognized professional accounting association authorized to conduct audits.

The auditor will have available the following information from the Band:

– all accounting books, records, accounts and vouchers;

– information from any program manager necessary for the completion of the audit;

– Band Council resolutions, bylaws and minutes;

– administration and financial regulations; and

– any relevant agreements or contracts, and any other related documents required by the auditor to complete the audit.

The external financial auditor is entitled to attend any Chief and Council meeting or general meeting where the audit report will be discussed.

Chief and Council will provide the external financial auditor with instructions concerning the audit and, via the finance director, will assist the external financial auditor in the completion of the audit.

The audit will include all transactions involving Band finances. The audit must be in accordance with generally accepted auditing procedures. The audit will include a general review of the adequacy of the accounting procedures and systems of control employed to protect the assets and interests of the Band.

The completed audit may be accepted by Chief and Council by band council resolution prior to June 30th of each year. The auditor will present the audit report to Chief and Council and membership at the annual general meeting of the Band.

An original copy of every annual audit will be kept at all times by the Band as part of the permanent financial records of the Band.

A copy of the audit will be made available to any Band member upon a request to the band manager.

Exhibit 2—All Nations First Nation general system for administering external financial audits.

Section Three—Working with External Financial Auditors

One of the regular tasks of the First Nation Housing Manager is to ensure that accurate and complete housing-related financial information is included in the external, year-end audit of the Band administration. To do this effectively, the Housing Manager must actively participate in certain features of the external audit.

This requires the Housing Manager to work with other Band employees. Besides the Councillor with the housing portfolio and the housing organization's board of directors and other housing-related staff, other important individuals for the Housing Manager are the finance director, the finance committee, the band manager or chief executive officer (CEO) and the external financial auditor.

Year-end financial audits take place once the First Nation has completed its financial statements for the previous fiscal year (that is, April 1st to March 31st). Therefore, the previous year's financial statements are completed shortly after March 31st. This triggers the external financial audit, which may take an another month or two. Once the audit is completed, the Chief and Council must accept or reject the audited financial statements before June 30th. The financial statements become official only when the First Nation accepts the audited financial statements.

Participating in the organization and implementation of an external financial audit does not necessarily mean that the Housing Manager will need to spend a lot of time on the external financial audit. In fact, if things are done right, the Housing Manager should not have to spend much time on the external audit. The important thing is to develop and maintain best practices for working with external auditors.

Practice 1: Develop and maintain a strong financial record-keeping system

Poor record-keeping means unnecessary time and expense in identifying and retrieving the information required in an external audit. By developing an efficient financial record-keeping system and maintaining it, a Housing Manager can help with an external audit.

There are several important issues to consider.

- Ensure that each financial transaction has an audit trail reference—a numbered reference code linking journals and ledgers and their source documents. These reference codes allow bookkeepers, accountants and managers to trace and retrieve information easily for each transaction.

  A separate audit trail number or reference should be included in every journal and ledger entry. A breakdown in the audit trail makes assigning accountability for transactions difficult. A breakdown can also be costly if there is a payment dispute with an outside contractor or tenants.
- Ensure that all source documents—such as transaction receipts, cheques, purchase orders and invoices—are kept safely and can be easily retrieved.
- Ensure that there is a backup system for computer records and procedures to ensure that all critical files are regularly and consistently backed-up.
- It is just as important to ensure that paper files are kept in a safe place where there is little risk of damage from theft, unauthorized handling, fire or flood.

Practice 2: Develop and maintain clear lines of communication and authority

An external audit means the involvement of one or more outside individuals. There may be some confusion about meeting the auditor's requests. For instance, the auditor may wish to speak directly to the Housing Manager and may even ask for specific information. Is it appropriate to provide the information? Perhaps; perhaps not. It depends on the individual First Nation's written and unwritten rules for these situations.

If there are no clear rules, it is best to ask the proper authority—the Councillor responsible for housing or the board of directors—for guidance. The finance director may prefer one-on-one communication dealings with the external auditor. In this case, the external auditor asks the Finance Director for information and the Finance Director coordinate the request with other administrative staff.

Section Four—Internal Financial Audits

An internal financial audit is an evaluation conducted by individuals within the organization, such as managers, accountants and other staff or teams and committees, such as a financial audit committee. An internal financial audit is an organization-driven process used when funders, boards of directors or managers believe one is necessary.

While there is no substitute for an external audit conducted by an independent third party, an annual external audit cannot provide the assurances that an organization's finances are secure at all times during the year. For this reason, managers of organizations should consider conducting their own internal financial audits as a supplement to an external audit.

Some large organizations hire auditors to conduct regular internal audits. These auditors report directly to senior management or a board of directors.

Unfortunately, many smaller organizations lack the resources to employ internal auditors or to hire someone temporarily to conduct an internal financial audit. For these smaller organizations, an "internal auditing team" to conduct periodic reviews may be a good idea. Such a team or committee could include the Housing Manager and one or more board members.

An internal auditing team can conduct a regular and inexpensive examination of the organization's accounting systems and financial activities. Whatever the design, internal audits use the same basic methods and examine the same elements as external audits, such as accounting forms, source documents, authorization and approval practices and procedures and financial statements.

There are three main reasons for conducting an internal audit.

1. To evaluate the bookkeeping or accounting system. Are transactions being properly documented? Are cheques being properly authorized?
2. To evaluate the appropriateness of financial transactions made by representatives of the organization. Are expenditures the kind the organization wants to make? Is the organization buying the items it is required to buy at a reasonable price?
3. To verify that the financial statements of the organization accurately and completely reflect the organization's financial standing.

The design of a financial audit conducted by a Housing Manager or an internal audit committee varies by organization but must consider the organization's accounting system and management structure.

An internal financial audit can be valuable when a new Housing Manager arrives, especially if the new Housing Manager believes that there are problems with either the accounting records or the decisions or actions of the previous administration. Without properly examining and reporting such problems, there is the potential for blaming the new Housing Manager for problems that are the responsibility of the previous Housing Manager. An audit is common following elections and a change in leadership.

Generally, managers should conduct financial audits of budgeting and accounting systems, including policies and procedures. Manager audits help protect against embezzlement and identify and help eliminate honest errors in bookkeeping, accounting and overall financial management.

Section Five—Important Steps in an Internal Audit

There are five main steps in conducting an internal financial audit.

Step 1: Developing an audit framework

Developing an audit framework is an important first step in conducting an audit. An audit framework includes both the plan and the capacity to properly conduct an audit. This audit framework, once established, guides all future internal auditing.

Important elements of an audit framework are

- the identity of key individuals, team or committee overseeing the auditing
- a description of roles and responsibilities of each individual involved
- a list of the financial and non-financial resources, such as personnel, required for an internal audit
- a description of clear audit triggers—signs or events that an audit is needed

Step 2: Establish criteria

The second step is to establish criteria for conducting the internal audit. Important issues to consider include

- How should information uncovered by the audit be evaluated?
- When is a financial transaction considered a problem?
- Should there be further auditing once the initial results have been evaluated?

Exercise 5—Developing a plan for an internal audit: ANFNHA

In this exercise, you design an internal audit for the All Nations First Nation. Be prepared to share your plans with the group.

Step 3: Set up a sample for internal and external audits

It is too time consuming and expensive to examine all an organization's financial documents, especially if they deal with a long period. Audits do not attempt to examine everything.

To deal with this, internal and external auditors use "audit sampling." To understand audit sampling, it is important to first explain sampling. Simply put, sampling is the process of testing the quality of something by testing a sample or samples.

For example:

Assume your community has 3,000 registered adult Band members living on-reserve. You want people to tell you their preferred type of design for new housing units. What is the best way to get this information? There are a number of options.

One way is to ask every adult. This would be time-consuming, expensive and it would probably be difficult to organize the information even if you were able to get it.

Another way is to use sampling procedures.

Instead of talking to all 3,000 adults in the community, you would talk to a sample of 300 adults—10 per cent of the sample population—the target group being measured. For instance, if you wanted the opinion of just adult women, the "population" is the total number of adult women in the community.

Can a sample of 300 adequately describe the preferences of the community's 3,000 adult members? "Yes," providing that the individuals within the sample are selected at random. Random selection implies that all individuals within the population had the exact same chance of being selected to the sample size. One way to so this is be to put each of the 3,000 names of adults into a hat and randomly draw the first 300 names.

Note that there is a difference between "statistical sampling" and "non-statistical sampling."

Statistical sampling relies on theories of probability to select sample size, sample items and evaluate results—a type of sampling beyond the scope of this program.

Non-statistical sampling relies on the auditor's judgment and experiences—that is, a "feel" for whether the sample is adequate and so on. Because of its practical nature, this type of sampling is more likely to be used in internal financial audits within Housing Organizations.

Audit sampling is the gathering a sample of financial transactions to use as a basis for making assumptions about the financial records of an organization.

In audit sampling, there is always the risk that the auditor will misinterpret what the sample reveals. Accuracy depends on how representative and how large the sample was.

Audit sampling plays a very important role in the administration of both external financial audits and internal financial audits (including manager audits).

Exercise 6—Sampling in action: ANFNHA

In this exercise, you develop a sample audit as part of a preliminary internal auditing process. Be prepared to share your sample with the group.

Step 4: Analyzing transactions within a sample

The key to conducting a financial audit is to follow an "audit trail"—that is, tracking individual financial transactions from original documents, such as receipts, invoices and cancelled cheques, to other accounting forms, such as journals, ledgers and financial statements.

For example, if the transaction was a purchase, the auditor will examine the purchase order form or cheque to make sure that it has the required authorization, such as signing authority or approval. Random samples should be conducted for all categories of financial transactions and expenses. These sample reviews determine whether proper forms are being used, whether information is being accurately recorded and whether required signatures have been obtained.

Step 5: Interpret results and make decisions

Once the information has been collected, the final step is interpreting the sample results and making decisions.

Chapter Three—Using Financial Statements

Overview

Financial statements are vital tools for managers. They provide important information at different times and for different periods. Housing Managers must be able to read, understand and use financial statements so they can make sound decisions for their organization.

This Chapter is an overview of using financial statements. At the end of the Chapter, you will be able to

- identify the three fundamental financial statements used for analysis and in decision-making in all organizations
- understand the important role of each in financial statement analysis within housing organizations
- identify what each type financial statement provides and doesn't provide
- identify the basic steps in reading financial statements

Things to think about when reviewing this Chapter

- How often does your organization prepare each of the three financial statements?
- Who prepares them? Who are they prepared for? For what purpose are they prepared?
- To what degree are these financial statements used as decision-making tools?

Exercise 8—Assessing your organization (Part 2)

In this exercise, you identify and describe how your organization uses financial statements. Be prepared to discuss with the group.

Section One—Overview of Financial Statements

Financial statements are important managerial tools. Managers use financial statements to make key managerial decisions. While there are many different types of financial statements, three are most important for managers:

1. the "balance sheet"—also called balance statement or statement of financial position
2. the "income statement"—also called statement of revenues and expenses
3. the "cash flow statement"—also called statement of changes in financial position

Each of the three statements provides important and valuable information. However, it is also important to note that any one of these three statements alone does not provide the full picture of an organization's financial performance and standing. To make strong financial decisions, a Housing Manager must have all three statements and know how to read each of them.

Figure 2 shows the main contents of the three principal financial statements.

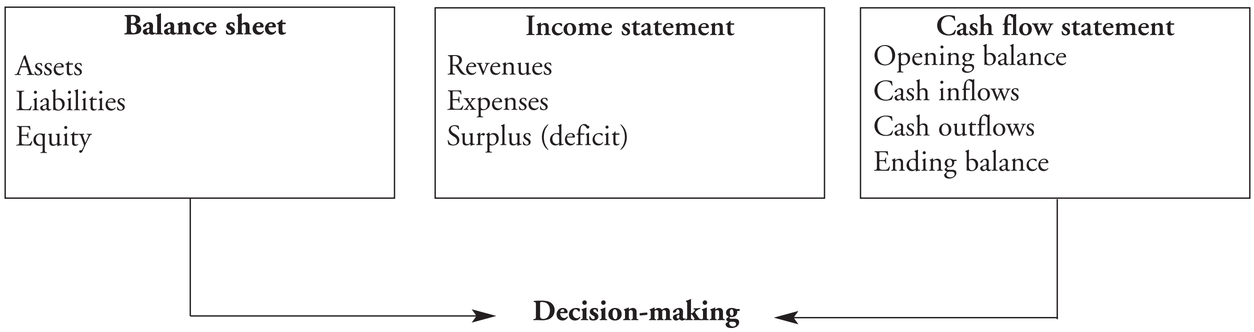

Figure 2—Main contents of the three principal financial statements

Section Two—Introducing the Income Statement

The income statement summarizes the total revenues and expenses of an organization in a specific period. Table 2 is an income statement for the All Nations First Nation Housing Authority for the 2001-2002 fiscal year (*see* Appendix 1 for five years of financial statements)

Income statement for All Nations First Nation Housing Authority the fiscal year April 1, 2001-March 31, 2002		• header information • organization name • dates
Item description	**Total ($)**	
Revenues		
Rent (CMHC only)	88,194.60	• revenue information
Subsidy Section 95 (CMHC)	117,730	• revenue sources
RRAP, Pathway, HRDC, and others	15,680	• revenue amounts
Contribution to audit from Band	3,840	• total revenues
Other allocated revenues	25,000	
Total revenues	250,444.60	
Expenses		
Administration costs	58,501	
Insurance expense	84,400	• expense items
Interest expense (mortgages)	53,581.21	• expense amounts
Bad debt expense (unpaid rent)	3,949.47	• expense information
Incentives	29,300	• total expenses
General maintenance (janitorial)	13,121	
Miscellaneous	10,801	
Depreciation expense	142,920	
Total Expenses	396,573.68	
Surplus (deficit)	(146,129.08)	bottom line • surplus or deficit
Adjusted*	**740.39**	• evaluation

* Adjusted amount deducts non-cash expenses associated with depreciation and bad debt.

Table 2—Income statement

What the income statement says . . .

- . . . summarizes all revenues due throughout a specified period whether the money was actually received-for example, rent from tenants. Even if the rent has not been collected, the organization has still earned the income and must include it in its income statement.
- . . . summarizes all expenses during the specified period whether the expense was actually paid. All expenses must be included as an expense item in the income statement.
- For instance, even though the organization will not pay the March 2001 telephone bill until April 15, 2001, the organization must include the telephone expense as part of the income statement for the 2000-2001 fiscal year since the expense was incurred during the fiscal year.
- . . . gives a bottom-line balance for the period to answer the question of whether the organization earned a surplus, incurred a deficit, or broke even and help the Housing Manager determine whether revenue levels are adequate and expense levels acceptable.

What the income statement doesn't say . . .

The income statement, like the balance sheet, is useful to Housing Managers but is a limited financial tool by itself. For instance, the income statement does not . . .

- . . . summarize cash inflows and outflows in the specified period. Revenues may have been earned but have not been collected, yet the organization still incurs expenses throughout the period. How did the organization pay for its expenses if it paid anything at all?
- . . . summarize capital expenditures. Purchases of capital items, such as office furniture and computer equipment, are not ordinary accounting expenses. Capital items are identified as assets.
- . . . give information about the value of the organization's assets, the total of its liabilities and its equity position at any point in time
- . . . give the principal paid during the specified period as part of the organization's loan obligations, which is a liability and not an expense. Only the interest paid on the loan is considered an accounting expense.
- . . . say how much was transferred to the Replacement Reserve Fund (RRF). Money transferred from one account to another is not an accounting expense—it is a simple transfer between asset holdings.
- . . . say how much was received from the RRF, as it is a simple transfer between asset holdings.
- . . . give the balance of the RRF. The income statement does not deal with account balances of any kind
- . . . give the value of new loans. The income statement only provides information on the interest expense for such. It does not provide information on new loans or their principal.
- . . . say how much was in the organization's bank account at any point and whether there is enough money in the account for the organization to pay its bills. The income statement does not deal with account balances.
- . . . say how much was in the office desk drawer. The income statement does not deal with account balances.

- . . . say how much money is owed to the organization. The income statement does not provide information on accounts receivable—it only provides information on the revenue earned during the specified period whether it has actually been collected.
- . . . say how much the organization owes. The income statement does not provide information on accounts payable.

Section Three—Eight Important Steps in Reading an Income Statement

There are eight important steps in reading an income statement.

Step	What to do
1	**Closely examine the the income statement heading.** • Is the name of the organization given correctly? Which organization is it describing? • Does it properly identify a time period? What time period does it represent?
2	**Examine the income statement's big picture.** • What is the total revenue for the period? • What are the total expenses for the period? • Does the income statement report a surplus, deficit or a break-even position?
3	**Know who prepared the income statement.** • Was it someone from the organization? Does this person have the proper qualifications? • Did the person have access to the required information to prepare an accurate statement? • Are there any arithmetic errors?
4	**Closely examine all reported revenues and expenses.** • Are all proper revenue sources and expense items identified? • Does each amount seem accurate for each item? • Are there any arithmetic errors?
5	**If necessary, ask the person who prepared the statement for more information.** • What decisions or methods were used to identify revenues and expenses? • What other financial statements are available to support the income statement?
6	**Do your own research to verify or dispute the reported income statement.** • Compare the income statement to other financial statements, including previous income statements.
7	**Evaluate the overall completeness and accuracy of the income statement.**
8	**Use the information reported in the income statement to make decisions.**

Exercise 9—Reviewing an income statement: ANFNHA

In this exercise, you review the income statement of the All Nations First Nation Housing Authority. Be prepared to share your worksheet with the group.

Section Four—Introducing the Balance Sheet

The balance sheet is a profile of an organization's financial position at any one time. It does not give financial information for a specific period, such as a fiscal year or a month. This is why a balance sheet is sometimes called a "statement of financial position."

A balance sheet can be prepared at any time (usually once a month and at the end of the fiscal year). Table 2 is a balance sheet for the All Nations First Nation Housing Authority (*see* the Appendixes for statements for the past five-year period).

Balance Sheet for All Nations First Nation Housing Authority as of March 31, 2002

Item description	Total ($)	• header information • organization name • dates
Assets		
Current assets		
Accounts receivable	1,841.42	
Cash on hand	250.37	
Bank balance	32,723.11	• asset accounts
Prepaid expenses	1,586.29	• asset account totals
Total current assets	36,401.19	• amount of total assets
Long-term assets		
Housing stock (INAC)	3,259,098	
Housing stock (CMHC)	1,251,000	
Less accumulated depreciation	1,914,720	
RR Fund (CMHC only)	83,087.40	
Total long-term assets	2,678,465.40	
Total assets	**2,714,866.59**	
Liabilities		
Current liabilities		
Accounts payable	38,071.07	• liability information
Current portion of long-term debt	92,981.16	• liability accounts
Total current liabilities	131,052.23	• liability accounts totals
Long-term liabilities		• amount of total liabilities
Loans payable: CMHC	929,676.08	
Total long-term liabilities	929,676.08	
Total liabilities	**1,060,728.31**	
Equity		
Beginning	1,744,407.48	• equity information
Change in equity		• beginning position
Surplus (deficit)	(146,129.08)	• income summary
Other	55,859.88	• total equity
Total equity	1,654,138.28	
Total liabilities and equity	**2,714,866.59**	

Table 3—Balance sheet

What the balance sheet says . . .

The balance sheet summarizes the value of an organization's assets, liabilities and equity position.

It lists two asset categories—current assets and fixed assets—and details the value of each group in each of the two categories.

It lists two types of liability categories—current liabilities and long-term liabilities—and details the value of each group in each of the two categories.

It also lists equity balances.

In every instance, the balance sheet has the sum of its assets equal to the combined sum of its liabilities and equity—*Assets=Liabilities+Equity*.

The balance sheet contains important information for decision—makers, such as

- the amount the organization actually has in the bank—the bank balance
- the amount the organization actually has in the office drawer—cash-on-hand balance
- a summary of the amount owed to the organization by other organizations, staff through advances and rent owed from tenants—accounts receivable balance
- the amount the organization has already paid for next period's operations and activities—prepaid expenses balance
- the amount available or that could be made available quickly—the total of the current assets
- a summary of the amount the organization owes—accounts payable balance
- a summary of the amount organization owes in the next year as its long-term debt obligations—current portion of long-term debt
- the total amount the organization could be asked to pay individuals or organizations in a short period—the total of current liabilities
- the amount the organization is obliged to pay over the long-term beyond the next year—long-term liabilities, such as loans or mortgages payable
- the amount of initial equity and the net change in equity

What the balance sheet doesn't say . . .

The balance sheet, while useful, does not tell the whole story. A balance sheet does not

- describe expenses that were incurred in the previous period and the total amount of such expenses (recall that the balance sheet does not deal with periods; it only provides information for a certain point in time)
- describe revenues incurred in the previous period and their amount
- summarize capital expenditures incurred in the last period. The balance sheet gives the total value of assets, which includes the value of all capital items that the organization owns or controls that the organization purchased from the first day of operations until the present
- the amount of new CMHC loan obligations. The balance sheet gives the total value of outstanding liabilities, which includes the value of all loans the organization incurred from the first day of operations

- the amount of interest paid on existing CMHC loans—loan interest is considered an expense. Only the principal amount of the loan is considered a liability. See explanation on expenses above
- the amount of principal paid on existing CMHC loans in the last period. While the balance sheet provides information on total loan liabilities, it does provide information on how much money was paid towards the principal on loans
- details of cash inflows or cash outflows for the previous period. The balance sheet does not provide information on total cash receipts or cash disbursements received by the organization for any given period, so it does not show the organization's ability to meet month-to-month cash obligations

Section Five—Eight Important Steps in Reading a Balance Sheet

The eight important steps in reading a balance sheet are:

Step	What to do
1	**Closely examine the the income statement heading.** • Is the name of the organization given correctly? Which organization is it describing? • What actual date is used as the ending balance?
2	**Examine the income statement's big picture.** • What is the total for assets as of the reported date? • What is the total for liabilities as of the reported date? • What is the total for equity as of the reported date? • Does the balance sheet show more liabilities than equity? How much more?
3	**Know who prepared the income statement.** • Was it someone from the organization? Does this person have the proper qualifications? • Did the person have access to the required information to prepare an accurate statement? • Are there any arithmetic errors?
4	**Closely examine all reported assets, liabilities and equity items.** • Are all assets, liabilities and equity items identified? • Does each amount seem accurate for each item? • Are there any arithmetic errors?
5	**If necessary, ask the person who prepared the statement for more information.** • What decisions and or methods were used to identify assets, liabilities and equity? • What other financial statements are available to support balance sheet?
6	**Do your own research to verify or dispute the reported income statement.** • Compare the balance sheet to other financial statements, including past balance sheets.
7	**Evaluate the overall completeness and accuracy of the income statement.**
8	**Use the information reported in the balance sheet to make decisions.**

Exercise 10—Reviewing a balance sheet: ANFNHA

In this exercise, you review the balance sheet of the All Nations First Nation Housing Authority using the annual statement of financial position in Appendix 1 of the *Manual*. Be prepared to share your worksheet with the group.

Section Six—Introducing the Cash Flow Statement

The cash flow statement summarizes an organization's cash situation for a specific period. Cash flow statements are generally prepared every month and at the end of the fiscal year. The cash flow statement includes both operating items (such as a paid telephone bill) and capital items (such as spending on major maintenance projects). In other words, the cash flow statement is only concerned with how actual cash actually moved as either inflows or outflows for the specified period.

Another name for the cash flow statement is "statement of changes to financial position." Table 3 is the cash flow statement for the All Nations First Nation Housing Authority for the 2001-2002 fiscal year (see the Appendixes for a complete set of financial statements for the past five fiscal years).

What the cash flow statement says . . .

The cash flow statement summarizes cash inflows and outflows for a specified period. It gives

- the loan proceeds the organization received during the specified period, including the amount paid on the principal
- capital expenditures as a summarized total of all capital expenditures
- the principal paid on existing loans, including the amount paid on principal
- the total transferred to the RRF
- the total received from the RRF
- total cash disbursements
- total cash receipts
- a summary of the change in net cash flow—total cash receipts minus total cash disbursements.

What the cash flow statement doesn't say . . .

The cash flow statement does not give

- the value of the organization's assets, the total of its liabilities and its equity position at any time
- the balance of the RRF
- the total loan obligations of the organization at any time—the cash flow statement provides information on the value of new loans
- the amount owing to the organization-the accounts receivable balance
- the amount the organization owes—the accounts payable balance
- a description of the revenues and expenses

Note: Revenue can be earned but not collected and expenses can be incurred without actually paying for them.

Cash flow statement for the All Nations First Nation Housing Authority for the fiscal year beginning April 1, 2001 and ending March 31, 2002

- header information
- organization name
- dates

Item description	Total ($)	
Total CEC (beginning)	**17,824.48**	opening cash balance
Bank balance (beginning)	17,824.48	• start of period
Cash on hand (beginning)	300	
Operating		cash flow (operations)
Surplus (deficit)	(146,129.08)	• income summary
Add: depreciation expense	142,920	• adjustments
Add: accounts payable	2,305.86	• total OCF
Add: bad debt expense	3,949.47	
Subtract: accounts receivable	(12,263.84)	
Subtract: prepaid expenses	(824.84)	
Total operating cash flow (OCF)	16,134.94	
Cash Receipts (other)		other cash receipts
Loan proceeds received	—	• loan proceeds for period
Annual capital allocation	242,953	• other revenue sources
Transfer in from RRF	16,230	• transfer from RRF
Total receipts (other)	259,183	
Total cash receipts and OCF	**275,317.94**	
Cash disbursements (other)		other cash disbursements
Loan principal paid	39,399.95	• loan information
Payment to RRF	27,110.35	• RRF information
Capital expenditures (new units)	—	• capital expenditures
Capital expenditures (R&M)	176,009	
Capital expenditures (emergency repair)	17,600	
Total cash disbursements (other)	260,119.30	closing balances
Total CEC* (ending)	**32,973.48**	• net change in cash flow for period—that is, cash holdings increased by $15,149.01 over period
Bank balance (ending)	32,723.11	
Cash on hand (ending)	250.37	
Net change	**15,149.01**	

* CEC is "cash and equivalent to cash" holdings

Section Seven—Eight Important Steps in Reading a Cash Flow Statement

The eight important steps in reading a cash flow statement are:

Step	What to do
1	**Closely examine the cash flow statement heading.** • Is the name of the organization given correctly? Which organization is it describing? • Does it identify the period properly? What is the period?
2	**Examine the cash flow statement's big picture.** • What are the total cash receipts for the period? • What are the total cash disbursements for the period? • What is the beginning and ending cash balance for the specified period?
3	**Know who prepared the cash flow statement.** • Was it someone from the organization? Does this person have the proper qualifications? • Did the person have access to the required information to prepare an accurate statement? • Are there any arithmetic errors?
4	**Closely examine all reported cash receipts and cash disbursements.** • Are all proper cash receipt items and cash disbursement items identified? • Does each amount seem accurate for each item? • Are there any arithmetic errors?
5	**If necessary, ask the person who prepared the statement for more information.** • What decisions or methods did the preparer use to identify cash receipts and distur, sements? • What other financial statements are available to support the cash flow statement?
6	**Conduct your own research to verify or dispute the reported cash flow statement.** • Compare the cash flow statements to other financial statements, including previous cash flow statements.
7	**Evaluate the overall completeness and accuracy of the cash flow statement.**
8	**Use the information reported in the cash flow statement to make decisions.**

Exercise 11—Reviewing a cash flow statement: ANFNHA

In this exercise, you review the cash flow statement of the All Nations First Nation Housing Authority using the five-year Annual Cash Flow Statement in Appendix 1 of the *Manual*. Be prepared to share the contents of your worksheet with the group.

Exercise 12—Case study: Evaluating the performance of the ANFNHA

In this exercise, you evaluate the overall financial performance of the All Nations First Nation Housing Authority. Be prepared to discuss your evaluation with the group.

Summary

Audits and financial statements are important tools for managers. Housing Managers need to understand how to use these tools in order to help them make important decisions for their organizations. Housing Managers who know how and when to use these and other financial management tools lead successful housing organizations.

Appendixes

All Nations First Nation Housing Authority financial statements
1997–1998 to 2002–2003
and
2002–2003 to 2006–2007

Appendix A—Annual statement of financial position as of March 31st

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Assets					
Current					
Accounts receivable	1,617.31	15,520.61	24,025.62	14,105.26	1,841.42
Cash on hand	621.95	417.90	555.50	300	250.37
Bank balance	11,190.88	13,392.25	26,670.99	17,524.48	32,723.11
Prepaid expenses	2,614.55	4,357.37	1,179.20	2,411.14	1,586.29
Total	**16,044.69**	**33,688.14**	**52,431.31**	**34,340.87**	**36,401.19**
Long-term					
Housing stock (INAC)	3,259,098	3,259,098	3,259,098	3,259,098	3,259,098
Housing stock (CMHC)	824,051	1,251,000	1,251,000	1,251,000	1,251,000
Less acc. depreciation	1,343,040	1,485,960	1,628,880	1,771,800	1,914,720
RR fund (CMHC only)	77,797.04	49,186.89	60,416.23	72,207.05	83,087.40
Total	**2,817,906.04**	**3,073,324.89**	**2,941,634.23**	**2,810,505.05**	**2,678,465.40**
Total assets	**2,833,950.73**	**3,107,013.03**	**2,994,065.54**	**2,844,845.92**	**2,714,866.59**
Liabilities					
Current					
Accounts payable	13,072.76	18,518.82	28,300.91	35,765.22	38,071.07
Current portion of long-term debt	114,889.29	94,958.10	96,586.64	96,784.34	92,981.16
Total	**127,962.05**	**113,476.92**	**124,887.55**	**132,549.56**	**131,052.23**
Long-term					
Loans payable: CMHC	721,740.83	1,048,394.71	1,007,918.49	967,888.89	929,676.08
Total long-term	**721,740.83**	**1,048,394.71**	**1,007,918.49**	**967,888.89**	**929,676.08**
Total	**849,702.88**	**1,161,871.63**	**1,132,806.04**	**1,100,438.45**	**1,060,728.31**
Equity					
Beginning	2,185,736.73	1,984,247.85	1,945,141.39	1,861,259.50	1,744,407.48
Change in equity					
Surplus (deficit)	(160,480.32)	(179,106.72)	(150,528.15)	(178,949.62)	(146,129.08)
Other	(41,008.56)	140,000.26	66,646.27	62,097.59	55,859.88
Total	**1,984,247.85**	**1,945,141.39**	**1,861,259.50**	**1,744,407.48**	**1,654,138.28**
Total liabilities and equity	**2,833,950.73**	**3,107,013.03**	**2,994,065.54**	**2,844,845.92**	**2,714,866.59**

Appendix B—Annual income statement

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Revenues					
Rent (CMHC only)	58,480.08	59,979.57	83,839.99	85,989.74	88,194.60
Subsidy Section 95 (CMHC only)	85,470	86,625	114,740	117,877	117,730
RRAP, Pathway, HRDC, and others	14,720	15,200	15,200	15,200	15,680
Contribution to audit from Band	3,760	3,760	3,760	3,840	3,840
Other allocated revenues	200,000	200,000	25,000	–	25,000
Total	**362,430.08**	**365,564.57**	**242,539.99**	**222,906.74**	**250,444.60**
Expenses					
Administration costs	166,256	177,338	56,547	56,962	58,501
Insurance expense	75,810	75,810	85,100	82,300	84,400
Interest expense (mortgages)	101,572.95	95,363.69	52,419.10	55,629.26	53,581.21
Bad debt expense (unpaid rent)	3,985.45	1,083.60	11,330.05	13,214.09	3,949.47
Incentives	25,745	26,125	27,900	28,500	29,300
General maintenance (janitorial)	11,875	12,065	12,953	13,019	13,121
Miscellaneous	5,414	13,966	3,899	9,312	10,801
Depreciation expense	132,252	142,920	142,920	142,920	142,920
Total	**522,910.40**	**544,671.29**	**393,068.15**	**401,856.35**	**396,573.68**
Surplus (deficit)	**(160,480.32)**	**(179,106.72)**	**(150,528.15)**	**(178,949.62)**	**(146,129.08)**
Adjusted (removed depreciation expense and bad debt expense)	**(24,242.87)**	**(35,103.12)**	**3,721.89**	**(22,815.53)**	**740.39**
%	**-4.64%**	**-6.44%**	**0.95%**	**-5.68%**	**0.19%**

Appendix C—Annual cash flow statement

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Total CEC (beginning)	**13,249.11**	**11,812.83**	**13,810.15**	**27,226.49**	**17,824.48**
Bank balance (beginning)	12,689.35	11,190.88	13,392.25	26,670.99	17,524.48
Cash on hand (beginning)	559.76	621.95	417.90	555.50	300
Operating					
Surplus (deficit)	(160,480.32)	(179,106.72)	(150,528.15)	(178,949.62)	(146,129.08)
Add: depreciation expense	132,252	142,920	142,920	142,920	142,920
Add: accounts payable	6,536.38	5,446.06	9,782.08	7,464.31	2,305.86
Add: bad debt expense	3,985.45	1,083.60	11,330.05	13,214.09	3,949.47
Subtract: accounts receivable	808.66	13,903.30	8,505.01	(9,920.36)	(12,263.84)
Subtract: prepaid expenses	1,307.28	1,742.82	(3,178.17)	1,231.93	(824.84)
Total	**(19,822.42)**	**(45,303.17)**	**8,177.13**	**(6,662.79)**	**16,134.94**
Cash receipts (other)					
Loan proceeds received	—	426,949	—	—	—
Annual capital allocation	218,200	224,315	229,850	236,970	242,953
Transfer in from RRF	7,500	49,250	14,726	14,730	16,230
Total receipts (other)	225,700	700,514	244,576	251,700	259,183
Total cash receipts and OCF	**205,877.58**	**655,210.83**	**252,753.13**	**245,037.21**	**275,317.94**
Cash disbursements (other)					
Loan principal paid	6,573.90	19,525.60	40,562.06	37,351.90	39,399.95
Payment to RRF	20,014.15	20,639.85	25,955.34	26,520.82	27,110.35
Capital expenditures (new units)	—	426,949	—	—	—
Capital expenditures (R&M)	133,915	162,525	164,968	173,111	176,009
Capital expenditures (emergency repair)	46,873	23,370	7,989	17,200	17,600
Total cash disbursements	**207,376.05**	**653,009.45**	**239,474.40**	**254,183.72**	**260,119.30**
Total CEC (ending)	**11,812.83**	**13,810.15**	**27,226.49**	**17,824.48**	**32,973.48**
Bank balance (ending)	11,190.88	13,392.25	26,670.99	17,524.48	32,723.11
Cash on and (ending)	621.95	417.90	555.50	300	250.37
Net change	**(1,436.28)**	**1,997.33**	**13,416.33**	**(9,402.01)**	**15,149.01**

Note: CEC is "cash and equivalent to cash" holdings

Appendix D—Annual loan payment schedule

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Loan Payments					
Principal paid	10,640.73	19,525.60	42,539	40,957.38	43,203.13
Interest paid	101,572.95	95,363.69	52,419.10	55,629.26	53,581.21
Principal and interest	112,213.68	114,889.29	94,958.10	96,586.64	96,784.34

Appendix E—Annual capital expenditure statement

	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002
Capital expenditures					
Additions to stock (5 CMHC units)	—	426,949	—	—	—
Improvements to stock (R&M)	133,915	162,525	164,968	173,111	176,009
Emergency repair	46,873	23,370	7,989	17,200	17,600
Transfer to RRF	20,014.15	20,639.85	25,955.34	26,520.82	27,110.35
Total	**200,802.15**	**633,483.85**	**198,912.34**	**216,831.82**	**220,719.35**
Source of funds for capital expenditures					
Loan proceeds (CMHC)	—	426,949	—	—	—
RRF transfer to capital exp.	7,500	49,250	14,726	14,730	16,230
Annual capital budget allocation	218,200	224,315	229,850	236,970	242,953
Total source of funds	**225,700**	**700,514**	**244,576**	**251,700**	**259,183**
Balance	**24,897.85**	**67,030.15**	**45,663.66**	**34,868.18**	**38,463.65**

Appendix F—Annual rent collection statement

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Rental Income	**58,480.08**	**59,979.57**	**83,839.99**	**85,989.74**	**88,194.60**
Tenant portion	19,253.70	19,747.39	34,323.46	35,203.55	36,106.20
Shelter allowance portion	39,226.38	40,232.18	49,516.54	50,786.19	52,088.40
Rent collected	56,862.77	44,458.96	59,814.37	71,884.48	86,353.18
% collected from tenants	0.916	0.921	0.942	0.947	0.949
Transfer (shelter allow.) —%	1	0.653	0.555	0.759	1
Accounts receivable	1,617.31	15,520.61	24,025.62	14,105.26	1,841.42
Amount collected (accounts receivable)	3,421.50	533.71	4,190.56	10,811.53	10,155.79
Bad debt expense	3,985.45	1,083.60	11,330.05	13,214.09	3,949.47

Appendix G—Annual administration expenditure statement

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Administration expenses					
Wages and benefits	144,276	144,276	42,311	42,311	42,311
Office supplies	714	780	961	854	859
Bank charges	505	411	428	449	473
Postage expenses	851	867	1,017	968	989
Printing costs	836	904	1,187	1,082	1,229
Honoraria	1,663	2,004	4,437	4,978	5,657
Telephone expense	3,491	4,488	2,391	2,911	2,401
Travel expense	10,474	18,088	2,786	2,660	2,685
Training expense	—	—	—	—	—
Other	3,446	5,520	1,029	749	1,897
Total expenses	**166,256**	**177,338**	**56,547**	**56,962**	**58,501**

Appendix H—Annual budgeted statement of financial position, 2002-2003 to 2006-2007

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Assets					
Current					
Accounts receivable	1,851.60	1,976.96	2,923.20	1,198.52	1,228.48
Cash on hand	621.95	417.90	555.50	300	250.37
Bank balance	11,190.88	13,392.25	26,670.99	17,524.48	32,723.11
Prepaid expenses	2,023.13	2,115.03	2,298.58	2,325.16	2,330.60
Total	**15,687.56**	**17,902.14**	**32,448.27**	**21,348.15**	**36,532.57**
Long-term	—	—	—	—	—
Housing stock (INAC)	3,259,098	3,259,098	3,259,098	3,259,098	3,259,098
Housing stock (CMHC)	1,251,000	1,805,144	1,805,144	1,805,144	1,805,144
Less: acc. depreciation	2,057,640	2,214,408	2,371,176	2,527,944	2,684,712
RR fund (CMHC units)	103,241.77	5,493.86	20,288.55	37,322.98	51,459.13
RR fund (INAC units)	—	—	—	—	—
Total	**2,555,699.77**	**2,855,327.86**	**2,713,354.55**	**2,573,620.98**	**2,430,989.13**
Total assets	**2,571,387.33**	**2,873,230**	**2,745,802.82**	**2,594,969.13**	**2,467,521.70**
Liabilities					
Current					
Accounts payable	26,300.70	23,265.35	20,687.26	16,276.13	11,653.02
Current portion of long-term debt	92,981.16	131,656.32	131,656.32	131,656.32	131,656.32
Total Long-term	**119,281.86**	**154,921.67**	**152,343.58**	**147,932.45**	**143,309.34**
Loans payable: CMHC	894,602.63	1,388,199.74	1,338,801.41	1,272,425.33	1,205,401.14
Total	**894,602.63**	**1,388,199.74**	**1,338,801.41**	**1,272,425.33**	**1,205,401.14**
Total liabilities	**1,013,884.49**	**1,543,121.41**	**1,491,144.99**	**1,404,081.65**	**1,348,710.48**
Equity	—	—	—	—	—
Beginning	1,654,138.28	1,557,502.84	1,330,108.59	1,254,657.83	1,190,887.48
Change in equity	—	—	—	—	—
Surplus (deficit)	(128,590.12)	(129,654.34)	(104,789.82)	(105,559.32)	(101,966.76)
Other	31,954.69	(97,739.91)	29,339.06	41,788.97	29,890.50
Total	**1,557,502.84**	**1,330,108.59**	**1,254,657.83**	**1,190,887.48**	**1,118,811.22**
Total liabilities and equity	**2,571,387.33**	**2,873,230**	**2,745,802.82**	**2,594,969.13**	**2,467,521.70**

Appendix I—Annual budgeted income statement, 2002-2003 to 2006-2007

	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
Revenues					
Rent (CMHC only)	90,456	96,580	118,663	121,630	124,671
Subsidy Section 95 (CMHC only)	117,580	127,072	164,821	164,614	164,424
RRAP, Pathway, HRDC, and others	16,000	16,400	16,810	17,230	17,661
Band contribution to audit	4,000	4,100	4,203	4,308	4,415
Other allocated revenues	48,000	49,200	50,430	51,691	52,983
Total	**276,036**	**293,352**	**354,927**	**359,473**	**364,154**
Expenses					
Administration costs	60,000	62,013	66,189	67,844	69,540
Insurance expense	86,600	89,505	95,533	97,922	100,370
Interest expense (mortgages)	51,420.84	49,142.02	71,109.43	70,778.68	67,485.06
Bad debt expense (unpaid rent)	368.28	370.32	395.39	584.64	239.70
Incentives	30,000	31,006	33,095	33,922	34,770
General maintenance (janitorial)	13,300	13,500	13,675	13,900	14,150
Miscellaneous	20,017	20,702	22,952	23,313	22,798
Depreciation expense	142,920	156,768	156,768	156,768	156,768
Total	**404,626.12**	**423,006.34**	**459,716.82**	**465,032.32**	**466,120.76**
Surplus (deficit)	**(128,590.12)**	**(129,654.34)**	**(104,789.82)**	**(105,559.32)**	**(101,966.76)**
%	-31.78%	-30.65%	-22.79%	-22.70%	-21.88%
Adjusted	14,698.16	27,483.98	52,373.57	51,793.32	55,040.94
%	3.63%	6.50%	11.39%	11.14%	11.81%

Appendix J—Annual budgeted cash flow statements, 2002-2003 to 2006-2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Total CEC (beginning)	**32,973.48**	**29,815.14**	**42,619.82**	**49,932.61**	**57,297.57**
Bank balance (begin-ning)	32,723.11	29,564.14	42,308.77	49,512.61	57,097.07
Cash on hand (beginning)	250.37	251	311.05	420	200.50
Operating					
Surplus (deficit)	(128,590.12)	(129,654.34)	(104,789.82)	(105,559.32)	(101,966.76)
Add: depreciation expense	142,920	156,768	156,768	156,768	156,768
Add: accounts payable	(11,770.38)	(3,035.35)	(2,578.09)	(4,411.13)	(4,623.11)
Add: bad debt expense	368.28	370.32	395.39	584.64	239.70
Subtract: accounts receivable	1,851.60	1,976.96	2,923.20	1,198.52	1,228.48
Subtract: prepaid expenses	436.84	91.90	183.55	26.58	5.44
Total operating cash flow	**639.35**	**22,379.77**	**46,688.72**	**46,157.10**	**49,183.90**
Cash receipts (other)					
Loan proceeds received	—	554,144	—	—	—
Annual capital allocation	250,342	256,552	263,087	269,534	275,328
Transfer in from RRF	160,870	160,870	170,000	171,400	143,250
Total receipts (other)	411,212	971,566	433,087	440,934	418,578
Total cash receipts and OCF	**411,851.35**	**993,945.77**	**479,775.72**	**487,091.10**	**467,761.90**
Cash disbursements (other)					
Loan principal paid	41,560.32	43,839.14	60,546.89	60,877.64	64,171.26
Payment to RRF	187,870	191,078	206,250	207,650	179,500
Capital exp. (new units)	—	554,144	—	—	—
Capital expenditures (R&M)	167,500	173,445	185,825	190,535	195,430
Capital exp. (emergency repair)	18,080	18,695	19,950	20,444	20,958
Total cash disbursements	**415,010.32**	**981,201.14**	**472,571.89**	**479,506.64**	**460,059.26**
Total CEC (ending)	**29,815.14**	**42,619.82**	**49,932.61**	**57,297.57**	**65,149.81**
Bank balance (ending)	29,564.14	42,308.77	49,512.61	57,097.07	64,799.71
Cash on hand (ending)	251	311.05	420	200.50	350.10
Net change	**(3,158.34)**	**12,804.68**	**7,312.78**	**7,364.96**	**7,852.24**

Appendix K—Annual administration budget, 2002-2003 to 2006-2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Administration expenses					
Wages and benefits	42,500	42,575	42,700	42,950	43,300
Office supplies	870	890	915	940	985
Bank charges	500	505	512	520	530
Postage expenses	1,000	1,025	1,040	1,070	1,110
Printing costs	1,250	1,280	1,320	1,365	1,420
Honoraria	5,600	5,600	5,600	6,000	6,000
Telephone expense	2,700	2,750	2,800	2,850	2,900
Travel expense	3,000	3,000	3,300	3,300	3,600
Training expense	500	1,500	1,500	1,500	1,500
Other	2,080	2,888	6,502	7,349	8,195
Total expenses	**60,000**	**62,013**	**66,189**	**67,844**	**69,540**

Appendix L—Annual capital budget, 2002-2003 to 2006-2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Capital expenditures					
Additions to stock					
(5 units)		554,144			
Improvements to stock (R&M)	167,500	173,445	185,825	190,535	195,430
Emergency repair	18,080	18,695	19,950	20,444	20,958
Transfer to RRF	187,870	191,078	206,250	207,650	179,500
Total	**373,450**	**937,362**	**412,025**	**418,629**	**395,888**
Source of funds					
Loan proceeds	—	554,144	—	—	—
RRF transfer to capital exp.	160,870	160,870	170,000	171,400	43,250
Annual capital budget allocation	250,342	256,552	263,087	269,534	275,328
Total source of funds	**411,212**	**971,566**	**433,087**	**440,934**	**418,578**
Balance	**37,762**	**34,204**	**21,062**	**22,305**	**22,690**

Appendix M—Annual rent receipts budget, 2002-2003 to 2006-2007

	2002–2003	2003–2004	2004–2005	2005–2006	2006–2007
Rental income	**90,456**	**96,580**	**118,663**	**121,630**	**124,671**
Tenant portion	37,032	39,539.12	58,464.03	59,925.84	61,424.10
Shelter allowance portion	53,424	57,040.88	60,198.97	61,704.16	63,246.90
Rent collected	88,604.40	94,603.04	115,739.80	120,431.48	123,442.52
% from tenants	0.95	0.95	0.95	0.98	0.98
% Transfer (shelter allowance)	1	1	1	1	1
Accounts receivable	1,851.60	1,976.96	2,923.20	1,198.52	1,228.48
Amount collected					
(accounts receivables)	1,473.13	1,481.28	1,581.56	2,338.56	958.81
Bad debt expense	368.28	370.32	395.39	584.64	239.70

First Nations Housing Manager Training Program

USING AUDITS AND FINANCIAL STATEMENTS

PARTICIPANT'S WORKBOOK

TABLE OF CONTENTS

Exercise 1—Participant Introductions

In this exercise, you introduce yourself to the other Workshop participants and tell them something about yourself. The other participants will do the same thing.

There are many ways for members of a group to introduce themselves to each other. Your facilitator will give you directions about the introduction activity for this Workshop.

Use the space below for notes about the other participants.

Exercise 2—Participant Expectations

In this exercise, you set out your expectations for this Workshop.

In the space below, list what you hope to achieve or learn in this Workshop. Once you have listed your expectations, we will share them with the group. Your facilitator will write them on the flip chart and post them in the classroom so that we can refer to them throughout the course.

To list your expectations, answer the following question:

"This was a great Workshop because I learned . . ."

Exercise 3—Assessing Your Knowledge (Part 1)

1. List the different types of auditing activities or functions that you have engaged in.

2. What was your role in each?

3. In your opinion, how familiar are you with auditing?

4. What areas would you like to improve?

Exercise 4—Assessing Your Organization (Part 1)

1. Describe your organization's auditing processes and practices.

2. List and describe how year-end financial audits of Band operations affect the Housing Organization and your job.

2. List and describe the roles and responsibilities for auditing in your housing organization.

Exercise 5—Developing a Plan for an Internal Audit: ANFNHA

Develop a plan for an internal audit for the All Nations First Nation Housing Authority using the first two steps of the five-step process (as set out in Chapter two, section 5 in the Manual). Work in groups of two to three and use a flip chart to develop the plan.

The plan should include an audit framework that

- identifies the key individuals, team or committee that oversees the internal audit
- describes the roles and responsibilities of everyone involved in the process
- lists the resources, financial and non—financial—such as personnel-needed for an internal audit
- says when and under what circumstances an internal audit is needed

The plan should also include standards, such as

- how uncovered information should be evaluated
- what is regarded as a problem
- what action to take after evaluating the initial results.

Exercise 6—Sampling in Action: ANFNHA

Background

Assume you are the Housing Manager of the All Nations First Nation Housing Authority. You have decided to conduct an internal audit of the first six months of the 2001-2002 fiscal year. Assume that the organization's financial records indicate the following

- 431 cheques written
- 120 rent payment transactions were expected to be made
- 78 rent payment receipts issued
- $1,285.50—accounts receivable
- $37,483.77—accounts payable
- $1,431.98—travel expense claims in 34 separate transactions
- $1,129.05—cash advances in 13 separate transactions
- $6,903.79—spent on maintenance in 152 separate transactions
- seven contracts with outside contractors were active
- $372.86—office supplies in 19 separate transactions
- $21,156.55—employee wages in 22 separate transactions

Assignment

Work in groups of two to three.

- using the background information, establish one sample audit design
- say why you picked your design
- list and describe the financial and non-financial resources needed for the audit
- pick one of your group to present your recommended sample design to the main group

Exercise 7—Assessing Your Knowledge (Part 2)

1. Describe your experience using financial statements.

2. What was your role?

3. In your opinion, how familiar are you with financial statements?

4. What are the areas that you would like to improve?

Exercise 8—Assessing Your Organization (Part 2)

1. Describe how your Housing Organization and your community use financial statements.

2. List and describe the ways in which financial statements affect the Housing Organization and your job.

3. Identify and describe the various roles and responsibilities in developing and using financial statements in your Housing Organization.

Exercise 9—Reviewing an Income Statement: ANFNHA

Review the five-year Annual Income Statements from Appendix 1 of the *Manual* and answer the following questions.

1. What was the bottom line in the income statement for each of the five years reported? Circle the year that had the best results.

1997–1998	1998–1999	1999–2000	2000–2001	2001–2002

3. List the changes to revenues, expenses, and surplus or deficit over the five years and identify the year with the biggest improvement.

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Change in revenues					
Change in expenses					
Change in surplus (deficit)					

4. Rank each of the five years with "1" being the best and "5" being the worst according to the following.

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Total revenues					
% of rent revenues					
Total expenses					
% of administration expenses					
Overall performance					

Exercise 10—Reviewing a Balance sheet: ANFNHA

Review the five-year "Annual Statement of Financial Position" in Appendix 1 of the *Manual* and answer the following questions.

1. What was the bottom line in the balance statement for each of the five years reported? Show which year had the best financial standing.

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Total assets					
Total liabilities					
Total equity					

2. List the total change to each of the following items over the five years. Which year saw the biggest improvement?

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Change in assets					
Change in accounts receivable					
Change in liabilities					
Change in accounts payable					
Change in equity					

3. Rank each of the five years with "1" being the best and "5" being the worst period according to the following.

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Total assets					
Accounts receivable					
Current assets					
Current liabilities					
Accounts payable					
Overall financial standing					

Exercise 11—Reviewing a Cash Flow Statement: ANFNHA

1. What was the closing balance for each of the five years reported? Which year had the best closing balance?

1997–1998	1998–1999	1999–2000	2000–2001	2001–2002

2. List the changes to the following items over the five years. Which year had the biggest improvement?

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Change in total cash receipts					
Change in accounts receivable					
Change in accounts payable					
Change in total cash disbursements					
Change in equity					
Net change to cash flow					

3. Rank each of the five years with "1" being the best and "5" being the worst according to the following.

	1997–1998	1998–1999	1999–2000	2000–2001	2001–2002
Total cash receipts					
Total cash disbursements					
Total operating cash flow					
Bank balance					
Overall performance					

Exercise 12—Case Study: Evaluating the Performance of the ANFNHA

Working in groups of two or three, evaluate the financial performance of the All Nations First Nation Housing Authority over the past five years. Use the information from the previous three exercises and refer to the financial statements and records in Appendix 1 of the *Manual*.

Assignment

- Discuss the issues and develop a consensus on the financial performance of the All Nations First Nation Housing Authority.
- Write a short report summarizing your group's analysis and conclusions.
- Select one group member to present the group's report to the main group.

Exercise 13—Workshop evaluation

1. List the three things you liked best about this Workshop.

- ____
- ____
- ____

2. List the three things you liked least about this Workshop.

- ____
- ____
- ____

3. How would you rate the *Participant's Manual* and *Participant's Workbook* for the Workshop?

	Very useful	**Satisfactory**	**Not very useful**
Usefulness	❑	❑	❑
Completeness	❑	❑	❑
Relevance to your own job	❑	❑	❑

Comments ____

____

4. Do you think you will use the materials for reference after the Workshop? ❑ Yes ❑ No

5. How would you rate the facilitator for this Workshop?

	Excellent	**Very good**	**Good**	**Fair**	**Poor**
Knowledge of subject	❑	❑	❑	❑	❑
Style of presentation	❑	❑	❑	❑	❑
Ease of understanding	❑	❑	❑	❑	❑
Relevance of presentations	❑	❑	❑	❑	❑

Comments ____

____

6. How would you rate your own participation in this Workshop?

	Excellent	Very good	Good	Fair	Poor
Attendance at Workshop	❑	❑	❑	❑	❑
Reading of materials	❑	❑	❑	❑	❑
Participation in discussions	❑	❑	❑	❑	❑
Completion of exercises	❑	❑	❑	❑	❑
Understanding of material	❑	❑	❑	❑	❑

Comments ____

____

7. What do you think could be done to improve this Workshop?

____

____

____

____

____

8. How would you rate the length of this Workshop?

	Too long	Just right	Too short
Length of Workshop	❑	❑	❑

Comments ____

____

9. Would you recommend this Workshop to others? ❑ Yes ❑ No

Why? ____

____

10. Are you interested in taking other Workshops in the First Nation Housing Manager Training Program?

    ❑ Yes ❑ No

11. If you are interested in taking other Workshops in the First Nation Housing Manager Training Program, what subjects interest you the most?

    ____

    ____

    ____

12. General comments about the Workshop

    ____

    ____

    ____

Notes: