

WHAT TO EXPECT FROM A FINANCIAL AUDIT

We'd like to introduce you to the financial audit standards and practices we use to help you understand what to expect for a smooth, efficient audit process. We look forward to working with you.

WHO IS THE AUDITOR GENERAL?

The Auditor General is an independent officer of the Legislative Assembly of Prince Edward Island (Assembly) appointed under the authority of the *Audit Act*. The Auditor General is accountable to the Assembly, not the Government of Prince Edward Island. This independence enables the Office of the Auditor General of Prince Edward Island (Office) to offer independent, non-partisan observations and recommendations on government operations and management practices.

WHAT DOES THE OFFICE AUDIT?

The *Audit Act* provides the Office with the authority to conduct audits and examinations of provincial departments, Crown corporations, agencies, and various funds. Financial audits include the Province's consolidated financial statements, as well as various other financial statement audits. Special audits and examinations conducted by the Office include performance audits, which may sometimes be referred to as "value-for-money" audits.

WHAT IS A FINANCIAL AUDIT?

Financial audits communicate whether an organization's financial statements, as prepared by Management, are fairly presented and free of material misstatements. These audits are designed to provide a reasonable degree of assurance and are conducted in accordance with Canadian generally accepted auditing standards and Canadian assurance standards of the Chartered Professional Accountants of Canada. During the audit, we:

- examine evidence supporting the amounts and disclosures in the financial statements;
- assess the reasonableness and appropriateness of accounting policies used and estimates made; and

- evaluate the overall financial statement presentation.

We also consider (but do not provide assurance on) internal controls over financial reporting to:

- identify types of potential misstatements;
- consider factors that affect the risk of material misstatements; and
- design the nature, timing and extent of auditing procedures necessary to allow the Auditor General to express an audit opinion on whether the financial statements are fairly presented.

HOW TO PREPARE FOR A FINANCIAL AUDIT

To help meet the agreed upon objectives in the engagement letter, we will ask you to provide:

- draft financial statements, working papers and supporting information (we will provide you with a readiness list at the start of the audit);
- access to key financial and other staff;
- short-term working space on your premises; and
- administrative help as mutually agreed upon.

We will communicate with you to agree on a timeline for key dates and milestones that will lead to the timely delivery of our audit opinion. An assigned member of the Office will be in regular communication to ensure the audit runs smoothly and that there are no surprises for your organization or governing body.

THE AUDIT PROCESS

PRE-AUDIT PROCEDURES

We provide an engagement letter detailing the audit objective, scope, limitations, auditor independence, auditor and management responsibilities, financial reporting

framework, and the form and content of reports and letters. We will also conduct a preliminary discussion on key audit dates and the anticipated audit timeline.

PLANNING PHASE

During this phase, we gather financial information about your organization and inspect documents and reports. This information is used to assess the overall risks of possible misstatement in the financial statements and to create the audit plan.

Discussions will be with both Management and Those Charged with Governance (e.g. Board of Directors) of your organization.

FIELDWORK PHASE

We carry out various tests of account balances, significant transaction areas, and disclosures in the notes to the financial statements. Examples may include obtaining third party confirmations, performing statistical testing and analytical procedures, and reviewing supporting documentation.

We evaluate the evidence obtained and compare it to the objectives determined in the planning phase to adjust our work, if needed, for any unplanned events or risks.

REPORTING PHASE

We provide an audit opinion on the financial statements to the Board of Directors and relevant Minister. Prior to the report being finalized, the organization being audited must provide a management representation letter. This is a formal document signed by Management of the organization confirming that all significant items have been reported and disclosed in the financial statements and that Management is responsible for the content of the financial statements. We also send a letter to Management and the Audit Committee or equivalent, outlining any errors, issues, or deficiencies encountered during the audit and recommendations for improvement.

WHAT YOU CAN EXPECT FROM US

PROFESSIONALISM

Professional behaviour from our staff throughout the audit process.

EXPERTISE

Our audit teams have many years of combined experience in public sector accounting and auditing. We keep up to date on, and train our staff on, the latest developments in the standards we use.

INDEPENDENCE

We take our independence very seriously. We are required to maintain our independence in accordance with Office standards and professional standards, such as those of the Chartered Professional Accountants of Canada and Prince Edward Island. We will confirm this in writing to you during the course of the audit.

CONFIDENTIALITY

As per the *Audit Act*, all the records generated during our work are exempt from disclosure under the terms of the *Freedom of Information and Protection of Privacy Act*.

NO SURPRISES

We will keep you informed every step of the way, including clear and timely communication about significant accounting and audit issues.

VALUABLE FEEDBACK

Audits are an opportunity to gain insight into your organization, and aid in continuous improvement to the public sector management. After the audit is completed, we will send a survey to allow the audited organization to provide feedback to our Office about our communication, understanding of the audited entity, and professionalism during the audit. Our Office will use this feedback to evaluate our staff's performance, and to determine where improvements in our audit process may be required.