



Guide for
**Auditors of Registered
Electoral District Associations
Appointed Under
the *Canada Elections Act***



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PURPOSE AND AUTHORITY OF THE GUIDE

The purpose of this Guide is to provide practical assistance to auditors of registered electoral district associations appointed under the Canada Elections Act. The Guide was prepared by CICA staff with the assistance of an advisory task force.

This is the second edition of this Guide. The first edition was published in March 2005. Modifications have been made to reflect changes to the political financing provisions of the Canada Elections Act that are effective for fiscal years commencing on or after January 1, 2007 as well as any new or revised auditing standards that are now effective.

Any views expressed in the Guide are the views of those involved in its preparation and do not constitute an official position of the Canadian Institute of Chartered Accountants.

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INTRODUCTION

Effective January 1, 2004, electoral district associations (an association of members of a federal registered political party in an electoral district) are permitted to register with Elections Canada. Although registration is not mandatory, unregistered associations can only receive transfers from their registered party; they cannot accept contributions, provide goods or services or transfer funds to candidates, the registered party, or another registered association of that party, or accept surplus funds from a candidate, leadership contestant or nomination contestant (Section 403.01).

As part of its application for registration, the names and addresses of both the financial agent of the association and the appointed auditor are to be included, accompanied by their consent so to act (Sections 403.02(1) and (2)).

This Guide focuses on the responsibilities of the Auditor. The sections relating to the audit of an association's financial statements and its Financial Transactions Return contain references to auditing standards that are effective as of January 1, 2007. This edition also reflects changes to the *Canada Elections Act* brought about by the *Federal Accountability Act*, which are effective for fiscal periods starting on or after January 1, 2007.

GENERAL AUDIT CONSIDERATIONS

BACKGROUND INFORMATION ON THE ROLES AND RESPONSIBILITIES OF REGISTERED ASSOCIATIONS, FINANCIAL AGENTS AND ELECTORAL DISTRICT AGENTS

Elections Canada has issued a *Registered Association Handbook*¹ which, among other things, provides information on the roles and responsibilities within a registered association. The responsibilities of the financial agent and electoral district agents, as set out in the *Registered Association Handbook*, are as follows.

The Financial Agent

The financial agent is the person who has the capacity to enter into legal contracts on behalf of the association, and must be capable of managing the association's financial affairs. The financial agent is responsible for filing all of the registered association's financial reports with the Chief Electoral Officer. A corporation incorporated under the laws of Canada or a province is eligible to be the financial agent of a registered association (Section 403.1(1)). Eligibility requirements are identified in Election Canada's *Registered Association Handbook*. *The Financial Agent's Checklist* (EC20084) sets out the financial agent's responsibilities.

1 *Registered Association Handbook*, EC20082, (03/07), March 1, 2007, Elections Canada.
(www.elections.ca)

Electoral District Agents

The *Canada Elections Act*, Section 403.28, indicates that only electoral district agents appointed under Section 403.09(1) of the *Act* are permitted to incur and pay the registered association's expenses or accept contributions. Within 30 days of their appointment, the association must provide the Chief Electoral Officer with a written report, setting out the name and address of the persons appointed and any terms and conditions under which they are appointed. Electoral district agents can also issue tax receipts for monetary contributions, provided the leader of the registered party has, in writing, notified the financial agent that the association's electoral district agents are authorized to issue those receipts. Only the financial agent, however, can accept or transfer goods or funds on behalf of the association.

WHO MAY BE APPOINTED AS AN AUDITOR

"Auditor Eligibility" is set out in Section 403.11 of the *Canada Elections Act*, and is the same as the eligibility requirements for an auditor of a federal election candidate.

The auditor is defined in Section 403.11(1) as "a person who is a member in good standing of a corporation, an association or an institute of professional accountants; or a partnership of which every partner is a member in good standing of a corporation, an association or an institute of professional accountants."

The following persons are not eligible to be an auditor of a registered association:

- an election officer or members of the staff of the returning officer;
- a candidate or the official agent of a candidate;
- a chief agent or registered agent of a registered party or an eligible party;
- electoral district agents and financial agents of registered associations;
- leadership contestants and their leadership campaign agents;
- nomination contestants and their financial agents; and
- financial agents of registered third parties. (*Registered Association Handbook* (EC20082 (03/07) page 8 and Section 403.11(2))

For further information on who may be an auditor for a registered association, reference should be made to Elections Canada Information Sheet 25.

As is the case for all audits, auditors must be licensed to undertake audits under the rules of conduct of their provincial institute/ordre of chartered accountants, or the corresponding rules of the other qualified professional accounting organizations.

CHANGE OF AUDITOR

If an auditor ceases to hold office for any reason or ceases to be qualified or eligible or the appointment is revoked, another auditor must be appointed without delay, and the change reported in writing to the Chief Electoral Officer within 30 days. The chief executive officer of the association must certify the report outlining the change. (Sections 403.13, 403.14, 403.16)

INDEPENDENCE AND OBJECTIVITY

Auditors must comply with the independence rules of those professional organizations of which they are members, so as to ensure that their objectivity has not been impaired. The independence rules released by the provincial institutes of chartered accountants in 2003 contain a requirement that threats to independence must be considered before an audit is accepted and that, if there are threats, action must be taken to bring their level of risk down to an acceptable level. There are five categories of independence threats in the rules: a self-interest threat (the auditor stands to benefit in some way from the arrangement with the client), a self-review threat (reviewing their own work), an advocacy threat (promoting the client's position to too great an extent), a familiarity threat (too close to the client), and an intimidation threat. The auditor of a registered association should ensure that the above threats do not in any way compromise the objectivity of the audit.

Chartered accountants who are auditors of registered associations should note that the preparation or modification of a source document or originating data of the registered association by the auditor is prohibited under the independence rules of the provincial institutes of chartered accountants. The maintenance of the accounting records of the registered association by the auditor, for example, the preparation or modification of a journal entry, the determination or modification of an account code or a classification for a transaction, or the preparation or change of the accounting records, is prohibited unless the auditor obtains the approval of management of the association including the financial agent and electoral districts agents.² Advising on appropriate accounting policies and acceptable accounting treatments is normally considered acceptable. Auditors who are members of other accounting organizations should refer to the rules of professional conduct of their organizations regarding any similar requirements.

The auditor should also ensure that the financial agent and senior officials of the association are made aware of all relationships between the auditor, and the auditor's practice, and the association that, in the auditor's professional judgment, may reasonably be thought to bear on the auditor's independence.

2 For example, see rule of professional conduct 204.4 (23) of the Institute of Chartered Accountants of Ontario.

AUDIT REQUIREMENT

Section 403.37 states that an audit is only required if the registered association has, in a fiscal period, accepted contributions of \$5,000 or more in total or incurred expenses of \$5,000 or more in total.³ In such instances, the auditor is to report to the financial agent on the Financial Transactions Return of the association and shall, in accordance with generally accepted auditing standards, make any examination that will enable the auditor to give an opinion in the report as to whether it presents fairly the information contained in the financial records on which it is based. If such is not the case, or if it appears that proper accounting records have not been kept, the auditor should indicate that such is the case in the auditor's report.

AUDIT FEE

Section 403.39 indicates that, once the necessary documents have been submitted and any other requirements have been met, including the submission of an invoice by the auditor, the auditor is entitled to an amount of up to a maximum of \$1,500 of the expenses incurred for the audit, from the Consolidated Revenue Fund. Any excess over this amount is the responsibility of the registered association.

ENGAGEMENT LETTER

The *CICA Guide for the Auditor of a Candidate in a Federal Election*⁴, Chapter 5, paragraphs 21 to 23, notes the importance of the engagement letter with respect to an engagement to audit an Electoral Campaign Return of a federal election candidate. What is said is equally applicable to the audit of the Financial Transactions Return of a registered association, as follows:

It is important that there be a clear understanding and agreement with the registered association and the financial agent as to the nature of the services the auditor is to provide and the nature of the auditor's report. To avoid any misunderstanding, the agreement should be put in writing. An engagement letter normally provides the clearest record of agreement reached and its use is preferable to other, less formal, arrangements. It is suggested that the terms of the engagement be agreed on prior to accepting the appointment as auditor for the registered association. As indicated above in the Introduction, the application for registration must be accompanied by the auditor's written consent so to act.

- 3 Section 404.2(2) and (3) of the *Act* indicates that transfers from a registered party, another registered association, a candidate, a leadership contestant or a nomination contestant of the party that held the nomination contest in the association's electoral district to the association are not a contribution for the purposes of the *Act*. Elections Canada has indicated that transfers from the association to other political entities, to the extent permitted by the *Act*, are excluded from expenses for the purpose of arriving at the amount of \$5,000.
- 4 *A Guide for the Auditor of a Candidate in a Federal Election Pursuant to the Canada Elections Act*, 8th edition, published by the Canadian Institute of Chartered Accountants in 2007 (www.cica.ca).

As the contractual understanding is between the auditor and the registered association, it is appropriate that the chief executive officer of the association also sign the engagement letter. The financial agent has no such contractual relationship with the auditor. As the auditor's report will be addressed to the financial agent, however, it is important for the financial agent to acknowledge an understanding of the terms of the engagement as set out in the engagement letter.

In accordance with *CICA Handbook—Assurance* Section 5110, “Terms of the Engagement,” the engagement letter should describe the objective, scope and limitations of the engagement. It should also describe the responsibilities of the auditor to conduct the audit in accordance with generally accepted auditing standards and his or her specific responsibilities, notably:

- keeping an entity's information confidential;
- maintaining his or her independence;
- making proper communications to management as required by the auditing standards;
- obtaining an understanding of internal control to identify types of potential misstatements, consider factors that affect the risks of material misstatement, and design the nature, timing and extent of further audit procedures.

The letter should also, as set out in paragraphs 5110.17 and 5110.18, describe the responsibility of the CEO and financial agent for:

- (a) the Financial Transactions Return;
- (b) the completeness of information related to the engagement;
- (c) fraud and error;
- (d) recognition, measurement and disclosure of specific items; and
- (e) providing written confirmation of significant representations to the auditor, in accordance with *CICA Handbook—Assurance* Section 5370, “Management Representation.”

Exhibit 2 provides a suggested form of engagement letter. Appropriate amendments would, of course, have to be made to take into account the particular circumstances of a specific engagement. For example:

- paragraphs covering matters such as accounting work, fees, etc. may be added; or
- the extent to which the auditor and/or staff will refrain from or participate in partisan electoral activity within or outside the association's electoral district may need to be included. In determining this, it may be necessary for the auditor to refer to the applicable provincial rules of conduct and interpretations.

An example of a Consent Letter is set out in Exhibit 1.

PREPARATION OF THE FINANCIAL TRANSACTIONS RETURN, INCLUDING THE FINANCIAL STATEMENTS, OF THE REGISTERED ASSOCIATION

Initial Financial Reporting Following Registration

Section 403.05 requires that, within six months of registering, the registered association must provide a statement, prepared in accordance with generally accepted accounting principles, of its assets and liabilities, including any surplus or deficit, as of the day before the effective date of the registration with a declaration in the prescribed form by the financial agent that it is complete and accurate. This in effect constitutes the opening balance sheet as far as the auditor is concerned. It should be noted, however, that there is no requirement that this statement be audited.

Annual Financial Transactions Return

Section 403.07 indicates that, without delay after becoming registered, a registered association shall, if necessary, vary its fiscal period so that it ends at the end of the calendar year. The initial fiscal period may be not less than six months or more than 18 months.

Section 403.35 requires that the registered association must submit a Financial Transactions Return and, where required, an auditor's report (see the section on "Audit Requirement" above). This Return is to be submitted within five months after the end of the Association's fiscal period.⁵ Again, the responsibility for preparing the Financial Transactions Return is that of the registered association, not the auditor, and a declaration that it is complete and accurate is the responsibility of the financial agent.

COMPOSITION OF THE FINANCIAL TRANSACTIONS RETURN⁶

The Financial Transactions Return comprises the following parts:

- Part 1: Declaration [403.35(1)(c)] [by the financial agent]
- Part 2a: Statement of Contributions Received—Details of Contributions from Individuals [403.35(2)(a), (b) and (c)]
- Part 2b: Statement of Contributions Received—Details of Operating Loans [403.35(2)(i) and (i.1)]

⁵ *Registered Association Handbook*, EC20082, (03/07), March 1, 2007, 5.2, page 25. Elections Canada. (www.elections.ca)

⁶ For years commencing January 1, 2007, the composition of Part 2 of the Financial Transactions Return changed, due to changes made to the rules for political contributions (see footnote 8).

- Part 2c: Statement of Contributions Received—Contributions Returned to Donors or Otherwise Dealt with in Accordance with the Act [403.35(2)(j)]
- Part 2d: Statement of Transfers Received [403.35(2)(h)]
- Part 2e: Summary of Contributions, Loans and Transfers Received [403.35(2)(a), (b), (h) and (i)]
- Part 3a: Statement of Transfers to a Registered Party, Another Registered Association, a Candidate, a Leadership Contestant or a Nomination Contestant [403.35(2)(g)]
- Part 3b: Statement of Unpaid Claims [403.34(1) and (403.35(2)(e)]
- Part 4: Association's Financial Statements [403.35(2)(e) and (f)].

Declaration (Part 1)

It is important to note that the current financial agent must sign the declaration, **not** the financial agent who was the agent at the time of the transactions (if they are different).⁷

*Contributions and Transfers Received (Part 2)*⁸

As noted above, the Financial Transactions Return includes several parts relating to Contributions Received and Transfers Received (Parts 2a to 2e). In this regard, the requirements of the *Canada Elections Act* (Sections 404 to 405) are the same for registered associations as they are for a candidate and the guidance set out in the 8th edition (2007) of the *CICA Guide for the Auditor of a Candidate in a Federal Election* would therefore equally apply to contributions and transfers received by registered associations, except where they specifically relate to candidates. Reference should therefore be made to Chapter 2, paragraphs 5 to 16 for a summary of the requirements of the *Act*. The statements in Part 2 of the Financial Transactions Return generally parallel those set out in Part 2 of the candidate's Electoral Campaign Return. With respect to registered associations, however, the totals of these amounts also have to be included in the revenue section of the Statement of Revenue and Expenses in Part 4 of the Financial Transactions Return.

7 *Registered Association Handbook*, EC20082, (03/07), March 1, 2007, 5.2, page 25. Elections Canada. (www.elections.ca)

8 On December 12, 2006, the *Federal Accountability Act*, which makes a number of changes to the *Canada Elections Act*, particularly in respect of those requirements relating to political contributions, received royal assent. As a result, effective January 1, 2007, corporations, trade unions and unincorporated associations may no longer make political donations to candidates, registered electoral district associations, or nomination contestants of registered parties. Furthermore, subject to annual inflation adjustments, contributions from individuals to registered associations, nomination contestants and candidates of a particular registered party in total can be no more than \$1,000 (adjusted to \$1,100 effective January 1, 2007) in any calendar year.

Transfers of Funds and Provisions of Goods and Services (Part 3a)

Section 404.2(2)(b) of the *Canada Elections Act* permits a registered association to provide goods or services or transfer funds to the party with which it is affiliated, to another registered association of the party, a candidate endorsed by the party. Section 404.3(1) indicates that a registered association can only provide goods or services to nomination contestants or a leadership contestant if they are offered equally to all such contestants. The details relating to these items are to be included on Part 3a of the Financial Transactions Return.

Unpaid Claims (Part 3b)

Sections 403.29 to 403.34 of the *Canada Elections Act* cover the processing of expense claims by a registered association, including the requirements relating to unpaid claims which are to be recorded on Part 3b of the Financial Transactions Return. A claim that remains unpaid 18 months after the end of the fiscal period is, with certain exceptions, deemed to be a contribution of the unpaid amount to the association.⁹

The Registered Association's Financial Statements (Part 4)

Section 403.35(2)(e) and (f) requires the registered association to include in its Financial Transactions Return:

- A statement of its assets and liabilities and any surplus or deficit in accordance with generally accepted accounting principles; and
- A statement of its revenue and expenses in accordance with generally accepted accounting principles.

The completed financial statements are to be set out on Part 4 of the Financial Transactions Return. Supporting schedules for all applicable line items are to be included, as well as notes to the financial statements.

Elections Canada has issued a *Guide to Registered Associations' Financial Statements* (EC20027 (01/08)) which includes the information necessary for the financial agent to prepare these financial statements. That Guide includes a completed example of Part 4 of the Return, as well as examples of supporting schedules and blank forms for the financial agent to use in completing the Association's financial statements. A list and examples of possible note items is included in that Guide.

AUDIT OF THE RETURN

As noted above in the section on "Audit Requirement," an audit of the Financial Transactions Return, of which these financial statements are a part, is only required if the registered association has, in a fiscal period, accepted \$5,000

⁹ See section 403.34(1) and (2).

or more in contributions or incurred expenses of \$5,000 or more in total.¹⁰ For other fiscal periods, unaudited statements will be submitted by the financial agent, unless the registered association itself chooses to have the financial statements audited. The declaration made and signed by the financial agent (Part 1 of the Financial Transactions Return) specifically states that the financial transactions return is complete and accurate.¹¹

With respect to the audit of these statements, most of the items would be covered by standard audit programs, such as those set out in the *Professional Engagement Manual* published by the Canadian Institute of Chartered Accountants (updated November 2006), adapted as necessary for the nature of this type of engagement. Commentary on certain specific issues, however, is set out below.

GENERAL AUDIT CONSIDERATIONS

A number of the issues referred to in Chapter 5 of the *CICA Guide for the Auditor of a Candidate in a Federal Election* are also relevant to the auditor of a registered association. For example, the auditor should comply with the general and examination standards set out in Section 5100, “Generally Accepted Auditing Standards.” Reference should also be made to Section 5805, “Auditor Reports on Financial Information Other than Financial Statements,” since the auditor is reporting on the complete Financial Transactions Return, and not just the Statement of Revenue and Expenses and the Statement of Assets and Liabilities which are a component of that Return. Guidance on other general audit considerations that is equally applicable to the audit of the Financial Transactions Return of a registered association includes the following:

Materiality

The public exposure and sensitivity of the Return should be borne in mind when determining what constitutes materiality. Due to the nature of the engagement, all misstatements discovered by the auditor could be of interest to those examining the Return.

Risk

Due to internal control limitations and the potential for certain expenses not to be recorded, risk of material misstatements might often be high. The nature, extent and timing of the auditor’s procedures should be designed so that, in the auditor’s opinion, the risk of not detecting a material misstatement in the

¹⁰ Refer also to footnote 3.

¹¹ Section 403.35(1)(c).

Financial Transactions Return is reduced to an appropriately low level. The auditor should perform the following risk assessment procedures to obtain an understanding of the entity and its environment, including its internal control:

- (a) enquiries of financial agent, management and others within the association;
- (b) analytical procedures; and
- (c) observation and inspection.

The auditor should refer to *CICA Handbook—Assurance* Section 5095, “Reasonable Assurance and Audit Risk,” which defines the concepts of reasonable assurance and audit risk and explains how these concepts apply during the audit of [the association’s] financial statements.”

Detecting and Communicating Misstatements

The auditor should refer to the following *CICA Handbook—Assurance* Sections:

- Section 5141, “Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement;”
- Section 5135, “The auditor responsibility to consider fraud,” which deals with the auditor’s responsibility to detect material misstatements arising from fraud in the audit of financial statements or other financial information and to communicate such misstatements; and
- Section 5136, “Misstatements—illegal acts,” which provides additional guidance to auditors about material misstatements arising from the consequences of illegal acts.

The auditor should identify and assess the risks of material misstatement with respect to error or fraud in the Financial Transactions Return at the assertion level, notably in the Statement of Revenues and Expenses and the Statement of Assets and Liabilities presented in Part 4 of the Financial Transactions Return. The auditor identifies risks by considering the nature of the Association and its environment, including relevant controls, and by considering the transactions in the Financial Transactions Return. The auditor relates the identified risks to what can go wrong at the assertion level, and considers the significance and likelihood of the risks. The auditor also needs to determine whether any of the assessed risks are significant risks that require special audit consideration or risks for which substantive procedures alone do not provide sufficient appropriate audit evidence. The auditor is required to evaluate the design of the entity’s controls, including relevant control activities, over such risks and determine whether they have been implemented.

When obtaining an understanding of the Association and its environment, including its internal control, the auditor should make enquiries of the Association’s financial agent regarding assessment of the risk that the Financial Transac-

tions Return, notably the Statements of Revenues and Expenses and the Statement of Assets and Liabilities, may be materially misstated due to fraud and any illegal acts. The auditor should be familiar with the requirements of the *Act* which, if violated, could reasonably be expected to result in a material misstatement of the Financial Transactions Return. If misstatements or other contraventions of the *Act* are discovered, the financial agent should be informed and asked to remedy the situation and correct the Return. In addition, because an attitude of professional skepticism should be maintained when performing the audit, the auditor will need to consider whether any misstatements or contraventions of the *Act* that have been discovered indicate the possibility of any other material misstatements existing in the Return. The auditor should also consider whether such a misstatement may be indicative of fraud and, if there is such an indication, the implications of the misstatement in relation to other aspects of the audit, particularly the reliability of management representations. In accordance with paragraph 5135.90, the auditor should obtain written representations from the financial agent acknowledging responsibility for the design and implementation of internal control to prevent and detect fraud and indicating that he or she has disclosed to the auditor the results of his or her assessment of the risk that the Financial Transactions Return may be materially misstated as a result of fraud. The written representation should also state that he or she has disclosed to the auditor any knowledge he or she may have about fraud or suspected fraud affecting the Association and any allegations of fraud or suspected fraud affecting the Return communicated to him or her.¹²

Understanding Internal Control

Generally accepted auditing standards require that the auditor obtain a sufficient understanding of the entity and its environment, including its internal control, sufficient to identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, and sufficient to design and perform further audit procedures. Section 5141, “Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement,” provides guidance on the understanding that the auditor should obtain of the internal control of an entity and its environment. This understanding is required regardless of whether there is an expectation that the controls will be relied upon in the audit.

In this type of organization, many desirable controls are unlikely to be in place. Some internal control features, however, will exist, for example, the *Canada Elections Act*, Section 403.28, states that only electoral district agents appointed under Section 403.09(1) of the *Act* are permitted to incur and pay the association’s expenses or accept contributions, and that only the financial agent can

12 Adapted from Chapter 5, paragraphs 35 and 36 of *A Guide for the Auditor of a Candidate in a Federal Election Pursuant to the Canada Elections Act*.

accept or make transfer of goods or funds on behalf of the association. The auditor should visit the headquarters of the association during the early stages of the audit so as to ascertain whether these and other appropriate controls are in place.

Completeness

Although the *Act* does not require the auditor to determine that all financial transactions have been recorded, in view of the nature of this type of organization and the financial transactions incurred, the auditor should, nevertheless, be alert for specific circumstances arousing suspicion that the information included in the Financial Transactions Return may not be complete.

Analysis

Analysis should be used in planning the audit to assist in designing the nature, extent and timing of other procedures.

Observation Procedures

See item 8 of the Suggested Audit Program in Exhibit 4 of the *CICA Guide for the Auditor of a Candidate in a Federal Election*.

Documentation

There should be adequate and proper documentation of planning decisions, understanding of the association activities and controls, the audit work performed on the Financial Transactions Return and conclusions reached. As indicated in the *CICA Handbook—Assurance* Section 5145 “Documentation,” paragraph 04:

The auditor should prepare audit documentation that provides the support for the representations in the auditor’s report. Audit documentation should:

- (a) demonstrate that the engagement complied with the CICA Handbook—Assurance;*
- (b) support the basis for the auditor’s conclusions concerning every relevant ... assertion in the [Financial Transactions Return]; and*
- (c) demonstrate that the underlying accounting records agreed or reconciled with the [Financial Transactions Return].*

Paragraph 5145.12 specifies that the documentation:

... should contain sufficient information to enable an experienced auditor, having no previous connection with the engagement, to understand:

- (a) the nature, timing and extent of the audit procedures performed to comply with generally accepted auditing standards and applicable legislative and regulatory requirements;*

- (b) *the results of the audit procedures and the audit evidence obtained; and*
- (c) *significant findings or issues arising during the audit and the conclusions reached thereon.*”

Paragraph 5145.02(b) indicates that the documentation should be completed no later than 45 days after the auditor’s report release date.

Opening Balances

As already noted, an audit is only required if the registered association has, in a fiscal period, accepted \$5,000 or more in contributions or incurred expenses of \$5,000 or more in total.¹³

Consequently, the opening amount of assets and liabilities in the fiscal period now being audited may comprise unaudited amounts.

The CICA Audit Technique Study, *The First Audit Engagement*, published in 1996, notes (Chapter 4, paragraph 10) that:

Opening balances for the reporting period result from transactions that were carried out in previous periods and reflect the accounting policies followed at that time. Consequently, with an ongoing entity, the auditor will be particularly concerned about establishing whether there are any material misstatements in its opening balances that will significantly affect the financial statements to be reported on. Particular emphasis should therefore be placed on:

- *obtaining details concerning composition of and assurance as to reasonableness of long-term balance sheet items accumulated from entries recorded in prior periods that form continuing elements of the financial statements on which the auditor will report (for example, long-term investments, capital assets or equity accounts);*
- *obtaining assurance that short-term items of opening financial position that are normally absorbed into the operating cycle of the current period are not materially misstated (for example, inventories, prepayments, short-term deferrals and accruals, accounts receivable, accounts payable, etc.);*
- *establishing whether the presentation and determination of amounts in the current period financial statements are consistent in all material respects with those of the preceding period.*

Additional discussion on these issues is provided in the audit technique study.

13 Refer also to footnote 3.

GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

As noted above, the *Act* requires that the Statement of Assets and Liabilities and the Statement of Revenue and Expenses included in Part 4 of the Financial Transactions Return be prepared in accordance with generally accepted accounting principles. The auditor should therefore ensure that these statements have been prepared on an accrual basis. Some of the items to which the auditor should give particular attention are as follows:

Transfers

The Elections Canada's *Guide to Registered Associations' Financial Statements* (EC 20027 (01/08)) indicates that transfers of funds from the registered party, another registered association, candidates leadership contestants and nomination contestants, as well as goods and services provided by the registered party, another registered association and candidates, are to be included as a line item of revenue in the Statement of Revenue and Expenses; transfers to such political entities are to be included as a line item of expenses. In view of the special nature of registered associations, in that they act on behalf of, and raise funds and incur expenses in relation to the activities of, a political party and its candidates, it is considered acceptable to treat such items as revenues or expenses. Non-monetary items transferred should be recorded at the lower of cost and market.

Loans

Under generally accepted accounting principles loans cannot normally be accounted for as revenue or expense. Consequently, in Part 4 of the Financial Transactions Return, a loan to or from the registered party, another registered association, candidates and leadership contestants, and any loans from nominations contestants, should not be included as a contribution or transfer, but should be included in the Statement of Assets and Liabilities (either as loans, other liability or other asset, as appropriate). Possible exceptions, however, are when an amount is advanced with forgivable conditions, which are likely to be met, and where the terms of a loan are so concessionary that all or a significant part of the loan is more in the nature of a grant.¹⁴

¹⁴ See *CICA Public Sector Accounting Handbook*, "Loans Receivable," paragraphs PS3050.17 to 25. With respect to this item, it is contended that this is equally applicable to registered electoral district associations.

Inventory of Supplies

As noted in Elections Canada's *Guide to Registered Associations' Financial Statements*, page 19:

... the inventory of supplies will normally comprise promotional material used by the association and the party. An inventory count of the supplies on hand should be conducted at the end of the fiscal period and the value thereof calculated based on the original cost of the merchandise.

Used and Unused Signs

Inventory may also include used and unused signs relating to previous electoral campaigns that have been returned to the association by candidates at the end of the campaign, and, possibly, unused signs never distributed by the association. The original cost of used signs would have been recorded by the candidate as an election expense.

Under generally accepted accounting principles, inventories are generally valued at the lower of cost and market. Any such signs that are passed along to the association at the end of the election campaign would be valued by the association at their commercial value (that is, what it would cost to purchase similar used signs) or their original cost less any adjustment for obsolescence, whichever is lower. Unused signs would be recorded at their commercial value or original cost, whichever is lower. Amounts relating to both used and unused signs would be recorded as a transfer received in the association's statement of revenue and expenses.

According to the 2007 version of Election Canada's *Election Handbook for Candidates, their Official Agents and Auditors*:¹⁵

... if a campaign uses signs in a second or subsequent election, the amount that the official agent should record as a non-monetary contribution and an election expense is the current commercial value for similar signs.

The amounts relating to used and unused signs passed along to candidates for use in a subsequent election would therefore be recorded by the association as a transfer to other parties in the statement of revenue and expenses, at their commercial value. The difference between commercial value and the amount included in inventory would be included in the association's statement of revenue and expenses as a profit or loss (under the item described as "other").

15 EC20190 (03/07 March1, 2007), page 31.

Capital Assets

Capital assets would be recorded at cost less depreciation. Based on the guidance provided in both the *CICA Guide for the Auditor of a Candidate in a Federal Election* and *Elections Canada's Guide to Registered Associations' Financial Statements*, capital assets donated to the association would be recorded at their commercial value. Reasonable methods of determining such commercial value would include the price, or approximate purchase price, of a similar asset and the approximate rental cost of such an asset. The association would record the “donated” amount as a non-monetary “contribution received” in its Statement of Revenue and Expenses.

Commercial Values

Chapter 5, paragraphs 13 and 14, of the *CICA Guide for the Auditor of a Candidate in a Federal Election* provide guidance to auditors in some of the steps to be taken regarding commercial values. The following adapts this guidance to registered associations.

To permit an audit of the amounts recorded in the accounts, it is suggested that, through the engagement letter, the auditor obtain agreement that the [registered association and the financial agent] will obtain statements of commercial value where the auditor deems it appropriate. When this has not been done and the auditor believes that the commercial value may differ substantially from the recorded commercial value, it will be necessary for the auditor to obtain such statements.

The commercial value of property and services may be misstated, either by error or intent. The auditor should therefore question the amount of any voucher that appears to be entered in the [Financial Transactions Return] at less than a reasonable value. Any such misstatement would be of importance when the correct amount is obvious, or its effect, or the cumulative effect of such misstatements, may be material.

Contributions

Chapter 5, paragraph 16 of the *CICA Guide for the Auditor of a Candidate in a Federal Election* sets out the auditor’s responsibility regarding ineligible contributions. It is assumed that this equally applies to contributions received by registered association, as follows:

According to Elections Canada, it is not the auditor’s responsibility to ensure that contributors were eligible to make contributions. The auditor should, however, ask the [financial] agent if any ineligible contributions were received and to confirm that all such ineligible contributions have been included in the “Statement of Contributions Received – Contributions Returned to Donors or Otherwise Dealt With in Accordance with the Act” (Part 2c of the Return).

Items 26 to 38 of the Suggested Audit Program included in the *CICA Guide for the Auditor of a Candidate in a Federal Election* (Chapter 5, Exhibit 4) set out steps that may be considered in auditing contributions received by registered associations.

Fund-Raising Activities

The requirements regarding fund-raising activities in Section 408 of *Canada Elections Act* also apply to registered associations, and state that “the difference between the price of the ticket and the fair market value of what the ticket entitles the bearer to obtain” should be recorded as a monetary contribution received. For any amount in excess of \$200, the name and address of contributor also has to be disclosed, and the required information included as a contribution received in Part 2a of the Financial Transactions Return. The total of these amounts is also to be reported on the Statement of Revenue and Expenses, in Part 4 of the Financial Transactions Return. Item 36 of the Suggested Audit Program included in the *CICA Guide for the Auditor of a Candidate in a Federal Election* (Chapter 5, Exhibit 4) sets out some audit steps that should be considered.

Expenses

Unlike the situation for federal election candidates, no Part of the Financial Transactions Return specifically covers expenses incurred by a registered association. Expenses do, however, have to be included in the Statement of Revenue and Expenses (Part 4 of the Financial Transactions Return) on an accrual basis. Related supporting schedules, along the lines set out in the *Elections Canada Guide to registered Associations’ Financial Statements*, are to be attached to this Part of the Return. The *Elections Canada Guide*, pages 36 to 38, sets out what is to be included in the various line items.

REPRESENTATION LETTER

As part of the audit evidence, the auditor should obtain written assurance, through a “representation letter,” from the chief executive officer and financial agent of the registered association as to representations that the auditor considers of significance in forming an opinion, for example, that they are not aware of any violations or potential violations of the *Act*. Exhibit 3 provides an example of such a representation letter.

COMMUNICATIONS WITH MANAGEMENT AND THOSE HAVING OVERSIGHT RESPONSIBILITIES, AND OTHER ISSUES

Reference should be made to *CICA Handbook—Assurance*, Sections 5750, 5751, 5701, 5220 for other issues that should be considered by the auditor relating to: communications with management; communications with those having oversight responsibilities; other reporting matters; and weaknesses in internal control.

THE AUDITOR'S REPORT

The guidance set out in Chapter 6 of the *CICA Guide for the Auditor of a Candidate in a Federal Election*, paragraphs 2 to 10, would generally apply to the form and content of the auditor's report on the Financial Transactions Return of a registered association. A significant difference, however, is that the auditor also has to report on the Statement of Assets and Liabilities and the Statement of Revenues and Expenses that are set out in Part 4 of the Financial Transactions Return.

When the auditor is able to express an opinion without reservation on the Financial Transactions Return of a registered association, the report should be in the form set out in Exhibit 4. This is a composite report which has been constructed in accordance with the requirement of the following *CICA Handbook—Assurance* sections:

- “Special Reports: Audit Reports on Financial Information Other Than Financial Statements,” Section 5805, which provides guidance to an auditor engaged to express an opinion on financial information. This covers the auditor's responsibilities regarding Parts 1, 2 and 3 of the Financial Transactions Return.
- “The Auditor's Standard Report,” Section 5400, which provides guidance to an auditor engaged to express an opinion on general purpose financial statements prepared in accordance with generally accepted accounting principles. This covers the auditor's responsibilities regarding Part 4 of the Financial Transactions Return.

EXHIBIT 1

SAMPLE CONSENT LETTER

Date

(Name)
Chief Executive Officer
Electoral District Association

(Address)

Dear

I hereby accept the appointment as the auditor of your association pursuant to Section 403.12 of the Canada Elections Act.

This letter is provided in compliance with Sections 403.02(2)(b) and 403.12 of the Act.

Yours truly,

(signed)

cc: Chief Electoral Officer

EXHIBIT 2**SAMPLE ENGAGEMENT LETTER**

Date.....

(Name).....
 Chief Executive Officer
 Electoral District Association

(Address)

Dear.....:

As a result of our conversation on, I am summarizing my understanding of the terms of my prospective engagement as auditor to report to your financial agent under the *Canada Elections Act* on the Financial Transactions Return relating to your association for the fiscal period ending, 20...

Section 403.37 of the *Act* states that an audit of the association's Financial Transactions Return is required if the association has, in a fiscal period, accepted contributions of \$5,000 or more in total or incurred expenses of \$5,000 or more in total. In order to assist me in planning the audit, you will inform me at the commencement of each fiscal period whether or not an audit will likely be required, based on your estimate of contributions that will be received and expenses that will be incurred during the period.

As required by Section 403.37 of the *Act*, my audit will be performed in accordance with Canadian generally accepted auditing standards, which require that I plan and perform the audit to obtain reasonable assurance that the information included in Financial Transactions Return is presented fairly in all material respects. Further, one of the underlying principles of my profession is a duty of confidentiality with respect to client affairs, and I will not divulge information related to the association that is not already in the public domain to any third party without the association's permission unless required to do so by legal authority or the rules of professional conduct/code of ethics of the professional accounting organization of which I am a member. In this respect, however, it should be noted that Section 412(2) of the *Act* requires the Chief Electoral Officer to publish the Financial Transactions Return of the Association as soon as practical after receiving it, in a manner considered appropriate.

Canadian generally accepted auditing standards require me to communicate to you all relationships between myself [or my firm] and the association that, in my professional judgment, might be construed to have any impact on my independence as the auditor of the association, covering such matters as:

- (a) holding a financial interest, either directly or indirectly, in the association;
- (b) holding a position, either directly or indirectly, that gives me the right or responsibility to exert significant influence over the financial or accounting policies of the association;
- (c) personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with the association;
- (d) provision of services in addition to the audit engagement;
- (e) the involvement, or intended involvement, of myself, my close family or my firm, in any partisan electoral activity within or outside the electoral district.

I am not aware of any relationships that, in my professional judgment, may reasonably be thought to bear on my independence as auditor of the association.

or

The following relationships may reasonably be thought to bear on my independence: (*list the items concerned*).

As required by the *Act*, my report will be addressed to your financial agent and will state whether, in my opinion, the Financial Transactions Return presents fairly the information contained in the financial records on which it is based and whether the Statement of Assets and Liabilities and the Statement of Revenue and Expenses included in Part 4 of the Return have been prepared in accordance with generally accepted accounting principles, or will contain an assertion that an opinion cannot be expressed. As required by the *Act*, in my report I shall express a reservation in my audit opinion if I become aware that the Financial Transactions Return to which the report relates does not present fairly the information contained in the financial records on which it is based and required by Section 403.37(2) to be detailed in the Return. Also, as required by Section 403.37(2) of the *Act*, I will make additional statements as I consider necessary if, in my opinion,

- (a) I have not received from you or your financial agent all the information and explanations that I have required; or
- (b) proper accounting records have not been kept by your financial agent so far as it appears from my examination.

It should be noted that the *Act* prescribes limitations on the timing, amount and sources of contributions. It is not practicable, however, for me to verify, from sources outside the accounting records, that all contributions are in accordance with the *Act*, nor does the *Act* require me to do so. It should also be noted that the *Act* does not require me to report that all financial transactions pertaining to the association have been included in the accounting records, and in my report I shall state this fact. Of course, if my audit reveals that there had been a significant omission from the accounting records, it would be necessary for me to disclose this fact in my report.

My audit will be such as to enable me to report as required under the *Act*. The timely preparation and completeness of the accounting records and the Financial Transactions Return, which is to be prepared in accordance with the accounting provisions of the *Act*, and the Statement of Assets and Liabilities and the Statement of Revenue and Expenses included in Part 4 of the Financial Transactions Return, which are to be prepared in accordance with generally accepted accounting principles, are the responsibility of your financial agent. My responsibility as auditor does not extend beyond the reporting function outlined above and, accordingly, does not include ensuring that you and your financial agent comply with all the requirements of the *Act*.

In the absence of circumstances that would prevent me from expressing an opinion without reservation or additional statement, my report will be similar to the enclosed sample auditor's report.

The *Act* provides that suppliers should render accounts within three months after the expense has been incurred and requires payment within six months after payment is due. As the *Act* requires my examination to be completed and my report issued within five months after the end of the fiscal period, it is essential that the suppliers' accounts be recorded and the accounting records completed in time to allow me a reasonable period to complete my examination. I anticipate that I will be able to report by the date required by the *Act* if your Return is completed and available for final audit on or before (date). You have agreed that you will provide me with the completed Financial Transactions Return by that date.

You have also agreed that you or your financial agent will ensure that invoices for property and services will state the current market price when this price is more than the price charged to your association and, if necessary, will arrange for suppliers to certify as to the commercial value of goods and services provided.

My audit will be planned and conducted to enable me to express a professional opinion on the Financial Transactions Return, and will be performed in accordance with generally accepted auditing standards. Owing to the inherent limitations of an audit, error, fraud and other irregularities may not be detected by the application of procedures that comply with these standards. Of course, the discovery of fraud and other irregularities may still result from my examination and, if so, they will be reported to you.

I will consider the association's internal control over financial reporting solely for the purpose of determining the nature, timing and extent of auditing procedures necessary for expressing my opinion on the association's Financial Transactions Return. This consideration will not be sufficient to enable me to render an opinion on the effectiveness of internal control over financial reporting. Generally accepted auditing standards require me to consider any weaknesses in internal control for the purposes of determining the nature, timing and extent of auditing procedures. I acknowledge, however, that, due to the nature of the association, there may be limited segregation of duties, and will take this into consideration in planning the audit. Any weaknesses that I consider could be corrected will be communicated to you.

It may be necessary to perform certain auditing procedures at any time before or after the end of the fiscal period. In accordance with Section 403.37(3), I will have access at all reasonable times to all records, documents, books, accounts and vouchers held by you and your financial agent pertaining to the association, and may require from both of you such information and explanations as are necessary to complete my examination and report. Concurrent with the issuance of my report, I shall require that certain assurances that I consider of significance when forming my opinion be provided to me in writing by you and your financial agent in a manner similar to the enclosed sample representation letter.

Fees will be determined on the basis of time spent on this engagement at my standard rates, and any disbursements incurred will be added to the billing. The *Act* provides that the Receiver General will reimburse audit fees to a maximum amount. The Receiver General's reimbursement is conditional on the production of all the documents referred to in Section 403.35(1) of the *Act*, including the audit report and the invoice for audit fees. Otherwise you will be responsible for the full payment of the fees.

If the above terms are acceptable to you, please sign the enclosed copy of this letter in the space provided and return it to me after obtaining your financial agent's signed acknowledgment that he or she understands the terms.

Yours truly,

(signed)

Auditor

I confirm your appointment as my auditor on the terms as set out in this letter.

(signed)

Chief Executive Officer
Electoral District Association

(date)

I acknowledge that I understand the above terms of your engagement which have been authorized by the chief executive officer of the association.

(signed)

Financial Agent

(date)

EXHIBIT 3

SAMPLE REPRESENTATION LETTER

Date

Dear

In connection with your audit of the Financial Transactions Return of the Electoral District Association for the fiscal period ending December 31, 20.., we assure you that to the best of our knowledge and belief:

- (1) you have been afforded access to all the records, documents, books, accounts and vouchers held by the financial agent and the association.
- (2) all loans, advances, deposits, contributions and gifts received and all expenses incurred have been determined and recorded as required by the *Canada Elections Act*.
- (3) contributions have only been accepted from and on behalf of individuals; no contribution in excess of the amount permitted by the *Canada Elections Act* (as of January 1, 2007, \$1,100 in total for registered associations, nomination contestants and candidates per calendar year) has knowingly been accepted from a particular individual.
- (4) only electoral district agents appointed under Section 403.09(1) of the *Act* have accepted the amounts contributed to the association.
- (5) all persons indicated on the receipt forms made such donations on their own behalf and not as nominees for other persons or organizations.
- (6) all contributions received from ineligible contributors have been returned to the contributor within 30 days of becoming aware of the ineligibility or, if not possible, the amount of it or, in the case of a non-monetary contribution, an amount of money equal to its value was paid to the Chief Electoral Officer in accordance with Section 404(2).
- (7) no expenses (as defined in the *Act*) have been incurred by any person or organization other than electoral district agents appointed under Section 403.09(1) of the *Act*.
- (8) the amounts in the Statement of Assets and Liabilities and the Statement of Revenue and Expenses included in Part 4 of the Financial Transactions Return are in accordance with generally accepted accounting principles.
- (9) we have disclosed to you all claims and possible claims against the association, whether or not such claims have been disclosed with a lawyer.
- (10) to the extent possible, taking into account the nature and size of the association, we acknowledge our responsibility to implement controls procedures designed to prevent and detect misstatements whether due to fraud or error; we believe that the effects of any uncorrected misstatements aggregated by you during the audit, as set out in the attached schedule, are immaterial, both individually and in the aggregate, when taken as a whole (*or, if all misstatements have been corrected, state that there are no uncorrected misstatements; otherwise, the schedule of uncorrected misstatements should be attached to the representation letter*).
- (11) we confirm that we have disclosed to you all significant facts relating to any frauds or suspected frauds known to us that may have affected the association, and the results of our assessment of any material misstatements as a result of the fraud.

- (12) the amounts shown in the Statement of Revenues and Expenses set out in Part 4 of the Financial Transactions Return for total revenues and expenses are \$..... and \$....., respectively.
- (13) we are not aware of any violations or potential violations of the *Act* (or we have disclosed to you all facts related to violations or potential violations of the *Act*.)
- (14) (other representations).

Yours truly,

(signed)
Chief Executive Officer

(date)
Financial Agent

EXHIBIT 4

AUDITOR'S REPORT ON REGISTERED ELECTORAL DISTRICT ASSOCIATION'S RETURN RESPECTING FINANCIAL TRANSACTIONS PURSUANT TO THE *CANADA ELECTIONS ACT*

To (*name of Financial Agent*), Financial Agent for (*name of Registered Association*),

Section 403.37 of the *Canada Elections Act* requires an audit of the Financial Transactions Returns of registered electoral district associations for fiscal periods when accepted contributions and/or incurred expenses are \$5,000 or more in total. I have audited the Financial Transactions Return ("the Return") of the (*name of registered association*), prepared in accordance with the accounting requirements of Sections 403.27 through 403.42 and 404 through 414 of the *Canada Elections Act* and the Elections Canada's *Guide to Registered Associations' Financial Statements*, for the fiscal period ending December 31, 20.. , including the Statement of Assets and Liabilities and the Statement of Revenue and Expenses ("the financial statements") set out in Part 4 of the Financial Transactions Return, prepared in accordance with Canadian generally accepted accounting principles as required by Section 403.35(2)(e) and (f) of the *Act*. This financial information is your responsibility as financial agent for the association. My responsibility is to express an opinion on this financial information based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with Canadian generally accepted auditing standards, which require that I plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information in the Return. An audit also includes assessing the accounting principles used and significant estimates made by the financial agent, as well as evaluating the overall presentation of the financial information in the Return.

Due to the inherent nature of the transactions of registered electoral district associations, the completeness of contributions and other revenue and expenses is not susceptible to satisfactory audit verification. Accordingly, my verification of these amounts was limited to the amounts recorded in the association's accounting records. Further, the *Act* does not require me to report that the accounting records include all transactions relating to the association.

In my opinion, except for the adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself concerning the completeness of contributions and other revenues and expenses referred to in the preceding paragraph:

- (a) the Financial Transactions Return of (*name of registered association*) presents fairly, in all material respects, the information contained in the financial records on which it is based in accordance with the accounting requirements of the *Canada Elections Act* and the Elections Canada's *Guide to Registered Associations' Financial Statements*, and
- (b) the Statement of Assets and Liabilities and the Statement of Revenue and Expenses set out in Part 4 of the Financial Transactions Return present fairly, in all material respects, the financial position of the Association as at December 31, 20.. and its revenue and expenses for the fiscal period then ended in accordance with Canadian generally accepted accounting principles.

Further, I report that the amounts shown in the Statement of Revenue and Expenses set out in Part 4 of the Financial Transactions Return for total revenues and total expenses are \$..... and \$..... respectively.

City

(signed)
Auditor

(date)