

# Small Craft Harbours: Harbour Authority Financial Reference Guide

## (Summary)

### **Department of Fisheries and Oceans Required Financial Statement Formats for HA Financial Reporting.**

There are 3 levels of accountant review which are: AUDITS, REVIEW and COMPILATION ENGAGEMENTS (see Annex 1 for more information).

It is recommended that audits be conducted every 5 years, especially for HAs with gross annual revenues exceeding \$50,000.

There are 2 scaled formats (A and B) for financial record-keeping and reporting based on gross annual HA revenues.

#### **Format “A” – REVIEW ENGAGEMENT applies to:**

- Harbour Authorities that are required to hire a public accountant to audit or review their annual financial statements are required to use Financial Statement FORMAT “A”. This will generally include all HAs with **over \$250,000** in gross annual revenue.

#### **Format “A” or “B” – COMPILATION ENGAGEMENT applies to:**

- All Harbour Authorities with gross annual revenue **under \$250,000** may use either FORMAT “A” or FORMAT “B” (most will choose FORMAT “B” because it is shorter).
  - Harbour Authorities with gross annual revenue **less than \$50,000** are not required to hire a public accountant to perform any services in respect of their annual financial statements (Format B). Bookkeepers can complete the financial reporting.
  - Harbour Authorities with gross annual revenue **between \$50,000 and \$250,000** are not obligated to hire a public accountant for preparing annual financial statements but it is **strongly recommended** that a public accountant at least prepare a “Compilation Engagement” (see page 15) with respect to their annual financial statements in order to ensure readiness should an audit be required at some point in the future. An experienced and trusted bookkeeper could complete the preparation of the financial statements for the public accountant. Format A or B can be used.

Both financial reporting formats, A and B, are standard and consistent with Generally Accepted Accounting Principles and accounting software kits available in the marketplace.

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## Introduction

This Financial Reference Guide has been prepared to assist Harbour Authorities in understanding and complying with key financial rules and regulations that apply to Not-for-profit organizations in Canada. Many of the rules and regulations are imposed externally by the Canada Revenue Agency or by other government organizations – including the Department of Fisheries and Oceans from a policy or business rules perspective. Some of the rules and regulations that the Harbour Authorities are subject to are set by the Harbour Authorities themselves – in their Articles and By-Laws.

While the most relevant compliance requirements have been summarized in this document, there is no better way to understand the financial compliance rules and regulations that apply to each Harbour Authority than to read the relevant legislation, along with any guides prepared by the various government agencies as well as the Harbour Authorities' own Articles, By-Laws and other Board-approved financial management policies and procedures.

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## Incorporation Legislation Key to Compliance Rules and Regulations

All but a few of the existing Harbour Authorities have been incorporated under the *Canada Not-for-Profit Corporations Act*. As a result, the content of this document has been tailored to that legislation.

Any Harbour Authorities that were incorporated under Provincial legislation will need to check their Province's unique Non-profit organization incorporation legislation to determine the specific rules and regulations that are relevant for their organizations. The requirements can vary significantly from province to province. (In Quebec, even if an HA is not incorporated provincially, it needs to be registered with the Provincial Business Registrar, *Registraire des entreprises – Québec*).

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## Annual Financial Statements

### Are Harbour Authorities required to prepare annual financial statements for SCH?

Yes, all Small Craft Harbour Authorities are required to prepare annual financial statements for the Department of Fisheries and Oceans (Small Craft Harbours). The leases in place with HAs stipulate this requirement.

The Department of Fisheries and Oceans requires all Harbour Authorities to submit annual financial statements in the required format within six months of the Harbour Authority's fiscal year end.

There are 3 levels of accountant review which are: AUDITS, REVIEW and COMPILATION ENGAGEMENTS (see Annex 1 for more information).

It is recommended that audits be conducted every 5 years, especially for HAs with gross annual revenues exceeding \$50,000.

There are 2 scaled formats (A and B) for financial record-keeping and reporting based on gross annual HA revenues.

**Format “A” – REVIEW ENGAGEMENT applies to:**

- Harbour Authorities that are required to hire a public accountant to audit or review their annual financial statements are required to use Financial Statement FORMAT “A”. This will generally include all HAs with over \$250,000 in gross annual revenue.

**Format “A” or “B” – COMPILATION ENGAGEMENT applies to:**

- All Harbour Authorities with gross annual revenue under \$250,000 may use either FORMAT “A” or FORMAT “B” (most will choose FORMAT “B” because it is shorter).
  - Harbour Authorities with gross annual revenue less than \$50,000 are not required to hire a public accountant to perform any services in respect of their annual financial statements (Format B). Bookkeepers can complete the financial reporting.
  - Harbour Authorities with gross annual revenue between \$50,000 and \$250,000 are not obligated to hire a public accountant for preparing annual financial statements but it is strongly recommended that a public accountant at least prepare a “Compilation Engagement” (see page 15) with respect to their annual financial statements in order to ensure readiness should an audit be required at some point in the future. An experienced and trusted bookkeeper could complete the preparation of the financial statements for the public accountant. Format A or B can be used.

Both financial reporting formats, A and B, are standard and consistent with Generally Accepted Accounting Principles and accounting software kits available in the marketplace.

[Are Harbour Authorities required to have their annual financial statements audited or reviewed by a public accountant?](#)

If a Harbour Authority was incorporated as a Not-for-profit Corporation, there may be a requirement to have its annual financial statements audited or reviewed by a public accountant. The requirement, if there is one, will be contained in either the legislation under which the Harbour Authority was incorporated or the Harbour Authority’s bylaws. Harbour Authorities will need to check both in order to make a determination. In addition, many Harbour Authorities voluntarily choose to have a public accountant review or audit their annual financial statements to increase financial confidence and credibility.

The benefits to using the services of public accountants are that they can provide an oversight function on any:

- lack of appropriate controls;
- appearance of fraud; and
- need to improve financial reporting.

Most Harbour Authorities were incorporated under either the Federal Canada Not-for-profit Corporations Act, or similar Provincial incorporation legislation.

If an HA’s annual financial statements are audited or reviewed by a public accountant, the Public Accountant will produce a “public accountant’s report” (e.g. an “Audit Report” or a “Review Engagement Report”).

Any required “public accountant’s report” needs to be prepared by a “public accountant” as defined in the Act.

The criteria for a “Public Accountant” are:

- the person is a member in good standing of a provincial institute or association of accountants (CPA, CA, CGA, CMA);
- the person has the required licence required for the type of report that they will be preparing; and
- the person must be independent of the corporation, its affiliates or the directors or officers of the corporation or its affiliates.

**Exception to requirement for public accountant involvement:** If all the members (100%) of a small Harbour Authority (soliciting\* with less than \$250,000 in gross annual revenues or a non-soliciting with less than \$1 million in gross annual revenues) agree to NOT appoint a public accountant, then a public accountant is not appointed and there will be no “public accountant’s report”. **Annual financial statements however, still need to be provided.**

\*A Harbour Authority is considered **soliciting** when it receives more than \$10,000 annually in income from public sources. Public sources include gifts and donations from non-members, government grants and contributions (for HA operations), and funds from another soliciting corporation. The \$10,000 threshold **excludes** DFO / government funding received strictly for repair and maintenance of DFO-owned infrastructure.

It is DFO-SCH policy that all Harbour Authorities with gross revenue from all sources (includes DFO grants and contributions for HA operations and excludes funds for DFO-owned infrastructure repair and maintenance) in excess of \$250,000 must engage a public accountant to perform either an audit or a review engagement – and as a result, must use financial statement Format “A” for its annual financial statements. See the Table 1 below. See Annexes 1, 2 and 3 for more information.

**Canada Not-for-profit Corporations Act**

Audited financial statements are an absolute must for Soliciting corporations with annual revenues of more than \$250,000 and for Non-soliciting corporations with annual revenues of more than \$1 million. A corporation is considered soliciting when it receives more than \$10,000 annually in income from public sources. Public sources include gifts and donations from non-members, government grants, and funds from another soliciting corporation. Certain corporations can, by unanimous resolution of its members, dispense with the appointment of a Public Accountant. A summary of the rules is as follows:

Type of Corporation	Gross Annual Revenues	May Dispense with Public Accountant	Review Engagement	Audit
Soliciting	< \$50K	Yes	Default	Optional
Soliciting	Between \$50K and \$250K	No	Optional	Default
Soliciting	>\$250K	No	N/A	Mandatory
Non-soliciting	<\$1M	Yes	Default	Optional
Non-soliciting	>\$1M	No	N/A	Mandatory

“Default” = means that it is the recommended practice – however, the organization has the ability to downgrade to a lower level of accountant engagement.

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## Annual Returns or Reports

### Are Harbour Authorities required to file an Annual Return (or Annual Report)?

All Harbour Authorities are required to file an annual return or annual report according to the legislation under which they were incorporated (this is in addition to any annual income tax returns that are required under income tax legislation).

A Harbour Authority incorporated as a Not-for-profit Corporation under the Canada Not-for-Profit Corporations Act, must file an Annual Return with Corporations Canada

([https://www.ic.gc.ca/app/scr/cc/CorporationsCanada/hm.html?locale=en\\_CA](https://www.ic.gc.ca/app/scr/cc/CorporationsCanada/hm.html?locale=en_CA))

Payment is \$20 for the online filing fee (\$40 if not filed online). The return must be filed and the payment made within 60 days of the corporation's anniversary date (the anniversary date is the date the Harbour Authority was incorporated, amalgamated or continued under the NFP Act. It can be found on the Harbour Authority's Certificate of Incorporation, Amalgamation or Continuance or on the Corporations Canada online database of federal corporations). A blank Form 4022 - Annual Return form can be obtained from Corporations Canada's website. Failure to file or pay within one year of the filing deadline can result in the dissolution of the corporation.

Harbour Authorities are required to file the Annual Return by the filing deadline and to update that annual return periodically if certain changes are made during the year.

Harbour Authorities are required to:

- File any change of Registered Office Address (immediately after the change)
- Report Changes Regarding Directors (within 15 days of the change)
- File Financial Statements and Public Accountant's Report (soliciting HAs only):
  - Soliciting (see definition above) Harbour Authorities are required to file a copy of their annual financial statements and reports of a public accountant (if any) not less than 21 days before each Annual General Meeting.
- Keep your Articles Up-to-Date (as soon as amendment has been adopted by members; \$200 fee).
  - Articles set out basic information about the Harbour Authority that is made available to the public through the Corporations Canada Website (see above). You are required to amend articles if changes are made to the following:
    - the Harbour Authority's name;
    - the province or territory in which the registered office is located;
    - the fixed, minimum or maximum number of directors;
    - the classes, or regional or other groups, of members;
    - the restrictions on the activities the Harbour Authority may carry on;
    - the statement of the purpose of the Harbour Authority;
    - the statement regarding the distribution of property remaining on liquidation; and
    - any other provision included in the articles.
- Submit Copies of By-Laws (within 12 months of confirmation by members)

(Information sourced from Corporations Canada website).

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## Annual Income Tax Returns

### Are Harbour Authorities required to file annual income tax returns?

Yes, all corporations (including Harbour Authorities incorporated as Societies) are required to file a T2 Corporation Income Tax Return with the Canada Revenue Agency ("CRA") within six months of the organization's fiscal year end. It is this annual return in which the election is made to be treated as a not-for-profit organization for the year by the CRA.

Some provinces also require provincial income tax returns (e.g. Alberta and Quebec).

Most Harbour Authorities have the option of filing a regular T2 Corporation Income Tax Return or a T2 Short. The T2 Short is a shorter, simpler version of the T2 Corporation Income Tax Return. An HA is eligible to use the T2 Short if they meet all of the following conditions:

- it is not claiming any refundable tax credits (other than a refund of instalments paid);
- it did not receive or pay out any taxable dividends;
- it is reporting in Canadian currency;
- it does not have an Ontario transitional tax debit; and
- it does not have an amount calculated under section 34.2 of the federal Act [*this relates to partnership interests owned by the corporation and would not apply to most HAs*]

HAs incorporated in Alberta and Quebec that opt to file a T2 Short for Federal purposes must also file the required provincial income tax return for the province in which they were incorporated.

HAs opting to file a T2 Short Return must include at least three schedules to their return:

- Schedule 100, Balance Sheet Information, showing the financial position of the corporation at the end of the tax year;
- Schedule 125, Income Statement Information, showing the corporation's income and expenses for the year (if the corporation did not earn any income or incur any expenses, simply state "no income" or "no expenses"); and
- Schedule 141, Notes Checklist, for any notes to the financial statement information and to indicate the involvement of an accountant.

Depending on the circumstances, HAs may have to attach other forms or schedules. For more information, see page 2 of the T2 Short Return and the T2 Guide.

In addition, Harbour Authorities are also required to file a T1044 – Non-Profit Organization (NPO) Information Return if they meet one or more of the following criteria:

- the organization received or was entitled to receive taxable dividends, interest, rentals, or royalties totalling more than \$10,000 in the fiscal period;

- the total assets of the organization were more than \$200,000 at the end of the immediately preceding fiscal period (the amount of the organization’s total assets is the book value of these assets calculated using generally accepted accounting principles); or
- the organization had to file a T1044 NPO information return for a previous fiscal period.

The T1044 is required to be filed within six months of the fiscal year end.

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## Payroll and Payments to Employees and Service Providers

Any time a Harbour Authority pays someone for providing services to the Harbour Authority there may be obligations to:

- Deduct and remit payroll deductions to the CRA;
- File annual forms with the CRA for employees, subcontractors and volunteers; and
- Pay Workers Compensation Board (“WCB”) premiums.

When a Harbour Authority pays an individual to provide services, the individual is considered either an employee or an independent contractor (self-employed) for income tax purposes (payments to corporations or other incorporated entities are generally exempt from payroll withholding and reporting requirements). The CRA has very specific rules about how to classify individual service providers as either employees or independent contractors (See CRA document “RC4110 Employee or Self-employed?”). Significant penalties and interest may apply if the CRA finds a service provider was improperly classified.

### Employees:

#### Making Payroll Deductions

The Harbour Authority is obliged to accurately record payroll information for its employees, maintain up-to-date records. Harbour Authorities must follow a few simple procedures to account for payroll costs and to conform to government regulations. A payroll journal must be established. If the Harbour Authority has more than one employee, the journal consolidates earnings record cards or individual pay statements (which simplifies consolidation for T-4 slips). The journal also records the amount to be remitted to the government, including the employer’s contributions.

A Harbour Authority must register with the Canada Revenue Agency as soon as its first employee is hired. The CRA will open a new Payroll Account (using the same CRA business number if the Harbour Authority is already registered for GST/HST). The next step is for the Harbour Authority to obtain, from the Canada Revenue Agency, the Payroll Deductions Tables for Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums, and income tax deductions for the appropriate province. Alternatively, the Harbour Authority can use the Payroll Deductions Online Calculator (<http://www.cra-arc.gc.ca/esrvc-srvc/tx/bsnss/pdoc-eng.html>).

Harbour Authorities located in Quebec must register with Revenue Quebec. All questions pertaining to the payroll taxes in Quebec and to the Quebec Pension Plan must be directed to Revenue Quebec.

The Canada Pension Plan and the Employment Insurance program require contributions from both the employer and employee. Personal income tax is paid only by the employee. A Harbour Authority should stay informed of changes to these contributions that may occur during the year because the changes will affect the amount of money that a Harbour Authority and its employees must remit to the government.



Depending on the Harbour Authority's province of employment, additional deductions and payments may be required (e.g. Ontario Health Premium and Employer Health Tax; Quebec Pension Plan).

### Non-taxable gifts

Harbour Authorities can provide non-taxable, **non-cash** gifts to employees (not subject to payroll deductions or reporting on T4s) if they meet the following criteria:

- Can't include gift cards as these are "near-cash" (cash and near-cash payments do not meet the criteria for exemption)
- Must be for a special occasion or accomplishment
- Can't be performance related
- Fair market value of all gifts in the year (including GST/HST/PST/QST) is less than \$500
- Employers are also required to issue T4 – Statement of Remuneration Paid to their employees by February 28<sup>th</sup> of the year following payment.
- Some jurisdictions require payments to employees at least bi-monthly.

### Workers Compensation (WCB)

Despite everyone's best efforts, accidents can happen in any workplace. Workers' Compensation programs protect employees and employers from the financial hardships associated with work-related injuries and occupational diseases.

All corporations (including Harbour Authority) are required to register for WCB and to pay WCB premiums each year.

### Independent Contractors:

**Payments to all independent contractors in excess of \$500 in a calendar year require T4A's to be issued to the contractors and to be filed with the CRA.**

**Unless independent contractors have their own WCB coverage in place, organizations hiring them are required to make remittances in respect of all payments to independent contractors.**

### Volunteers (including Directors):

A volunteer is someone who provides services to a Harbour Authority without being paid for those services.

Generally, all payments to volunteers (who are not employees) are considered business income to the volunteer for income tax purposes and will require a T4A – Statement of Pension, Retirement, Annuity, and Other Income to be issued to the volunteer and filed by Feb 29<sup>th</sup> annually with the CRA.

However, Harbour Authorities can make certain payments to volunteers in limited circumstances without having to deduct and remit payroll taxes or file annual forms if the payments meet certain criteria:

- Reimbursement of organizational expenses paid out-of-pocket by the volunteer and later reimbursed by the Harbour Authority
- Honorariums are an exception if they meet all of the following rules:
  - They are nominal - \$500 or less in a calendar year
  - They are made to an individual for voluntary services for which fees are not legally or traditionally required
  - They are not reflective of the value of the work done

- They are made on a one-time or non-routine basis to an individual as a “thank you”.
- Non-taxable, non-cash gifts are an exception if all the following conditions are met:
  - Can’t include gift cards as they are “near-cash” (cash and near-cash payments do not meet the criteria for exemption)
  - Must be for a special occasion or accomplishment
  - Fair market value of all gifts in the year (including honorariums) is less than \$500
  - Can’t be performance related

If the total fair market value of all gifts (including honorariums) exceeds \$500 in any calendar year, a T4A will be required.

**Volunteers are generally not covered under WCB. As a result, organizations are encouraged to maintain general liability insurance to provide similar coverage.**

There may be restrictions that prevent certain types of payments to Directors. Harbour Authorities incorporated under the Canada Not-for-Profit Corporations Act can pay their Directors and officers reasonable remuneration for acting in their capacity as Directors and Officers and for the provision of other services to the organization.

Some provinces restrict a Not-for-profit organization’s ability to pay their directors for

- Remuneration of directors and officers in their capacity as directors and officers
- Remuneration of directors and officers for the provision of other services

If a Harbour Authority was incorporated under Provincial legislation, it will need to check that legislation for possible prohibitions prior to making any payments like these.

## Goods and Services Tax (GST)/Harmonized Sales Tax (HST)

### GST/HST Registration Requirements

A non-profit Harbour Authority must register for GST/HST purposes if its total revenues from taxable property or services in its last four calendar quarters or in a single calendar quarter are more than \$50,000. If a Harbour Authority has taxable revenues that are less than \$50,000, the organization may still register voluntarily. A Harbour Authority that is a GST/HST registrant may be entitled to claim input tax credits (ITCs) to recover the taxes paid or taxes payable on purchases or expenses used in its commercial activities (i.e. used to provide taxable property and services for which the Harbour Authority charges a fee). For more information on ITCs, see “ITC entitlement” on the Canada Revenue Agency website (<http://www.cra-arc.gc.ca>).

If the total taxable revenues of a Harbour Authority are below the \$50,000 threshold and it chooses not to register, it does not charge GST/HST on its taxable property or services and it is not entitled to claim ITCs to recover the tax paid or payable on its purchases or expenses. However, it may be entitled to claim a Public Service Body (PSB) rebate. For more information on this rebate, see “Rebate entitlement” on the Canada Revenue Agency website (<http://www.cra-arc.gc.ca>).

### GST/HST Status of Property and Services

Harbour Authorities commonly manage real property by way of lease or licence. In all provinces except Quebec, a lease generally gives the tenant exclusive possession of the property and the right to sublet the property. A

licence provides a person with specific rights to use harbour property and/or facilities, but does not provide the person with the same degree of control and exclusive possession as a lease. An example of a licence would be the right granted to a person to dock a boat at a certain wharf where the Harbour Authority retains control and access to all of the premises.

### Taxable Leases and Licences

A lease of real property made by a Harbour Authority to a tenant in the course of a business it carries on is generally taxable where continuous possession or use provided under the lease is for less than one month and the lease charge is more than \$20 per day (leases in excess of one month are generally not taxable regardless of the daily rate). A licence of real property or a right of entry given by a Harbour Authority in the course of a business it carries on is generally taxable regardless of the term of the licence.

### Provincial Sales Tax (PST)

If a Harbour Authority sells goods (or goods or services in the province of Quebec), the organization may be subject to provincial sales taxes. In addition, if Harbour Authorities use online software and do not pay PST as part of their subscription, there may be a requirement to self-assess PST on the subscription fee.

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### Maintaining Adequate Books and Records

There are requirements for maintaining adequate books and records in both incorporation legislation and tax legislation. Books and records are generally required to be available for inspection at any time at the organization's registered records office in Canada (storing documents "in the Cloud" on servers outside of Canada is generally not acceptable).

#### Canada Revenue Agency

For tax purposes, books and records have to be kept for a minimum of six years from the end of the last tax year to which they relate. Some records are required to be kept permanently or until after the Harbour Authority is dissolved.

Books and Records are referred to as an organized method of documenting accounting and financial information.

Types of Books and Records include:

- Financial reports and statements
- Bookkeeping records including journals and ledgers (computerized or manual)
- Tax reports and records
- Working papers (produced to support or reconcile financial accounts)
- Supporting documentation, including:
  - o Bank statements, cancelled cheques, deposit slips
  - o Sales invoices & receipts, cash register tapes, purchase orders
  - o Credit card statements
  - o Business purchase receipts (originals)

- Legal and Government Correspondence
- Other business documents and correspondence

The CRA sets out the following requirements in respect of Books and Records:

- Records must be kept at the place of business, and must be complete and reliable
- If claiming GST input tax credits (ITC's) the CRA has very specific requirements, including:
  - Original receipts or bills are required (scanned documents are not always acceptable as they can be altered)
  - Records must be legible (thermal paper fades over time so some businesses create a backup by scanning or photocopying these receipts)
  - Meals claims must include **both** the slip listing items purchased as well as proof of purchase (for example the cash/credit card receipt)
  - If audited, the Auditor may request the copy of the receipts as well as proof the expense was a business expense
  - Credit card statements are not considered valid "receipts"

For more information visit the CRA "Keeping Records" site: <http://www.cra-arc.gc.ca/records/>

### Canada Not-for-Profit Corporations Act

Under the Canada Not-for-Profit Corporations Act, Harbour Authorities are required to prepare and maintain the following documents:

- the articles and the by-laws, and amendments to them, and a copy of any unanimous member agreement;
  - the minutes of meetings of members and any committee of members;
  - the resolutions of members and any committee of members;
  - if any debt obligation is issued by the corporation, a debt obligations register;
  - a register of directors;
  - a register of officers;
  - a register of members; and
  - adequate accounting books and records.
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## Annex 1: What are Audit, Review and Compilation?<sup>i</sup>

Professional accountants offer many services to clients. There comes a time in every business when the services of a professional accountant are required. This need can arise at various points: at the planning stage in a new business venture; when tax returns for the business or the owner need to be prepared; when a potential or current lender requires a financial statement; or, when you might need to replace your present accountant. For some, you may need a professional accountant for assistance in your own personal tax planning or retirement planning. Although there are several varied reasons, it is important to understand the work performed by professional accountants.

Professional accountants refer to the work they perform for a specific client as an engagement and it is helpful for users of financial statements to understand the differences between an audit and other accounting engagements.

There are three different engagements associated with the financial statements of a business:

- Audit Engagements (accountant obligatory)
- Review Engagements (accountant required as per this DFO-SCH Policy)
- Compilation Engagements (bookkeeper sufficient)

### Audit Engagements

The objective on an audit engagement is to enable independent professional public accountants to render an opinion on the fairness of the client's financial statements.

Audited financial statements are the accepted means which many business corporations report to shareholders, to bankers, to creditors and to government. Federal and provincial legislation in Canada generally requires a limited company (corporations) to prepare annual financial statements for audit by qualified independent auditors.

The financial statements subject to audit are the responsibility of the company's management. The auditors' responsibility is to express an opinion on those financial statements. The auditors must plan the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Through the study and evaluation of the company's system of internal control, and by inspection of documents, observation of assets, making enquires within and outside the company, and by other generally accepted auditing procedures, the auditors will gather evidence necessary to determine whether the financial statements present a fair picture of the company's financial position and its activity during the period being audited.

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<sup>i</sup> "What are Audit, Review and Compilation?" Certified General Accountants of New Brunswick. N.p., n.d. Web. 5 July 2016. <[http://www.cga-nb.org/en/public\\_services/find\\_a\\_cga\\_firm/audit\\_review\\_compilation.aspx](http://www.cga-nb.org/en/public_services/find_a_cga_firm/audit_review_compilation.aspx)>.

## Review Engagements

The objective of a review engagement is to prepare and review financial statements to ascertain whether they are plausible, that is, worthy of belief. If, after reviewing the financial statements the accountants are satisfied that the financial statements are not misleading, the accountants' standard report will preface the financial statements.

Where an audit is not required or the shareholders have waived the appointment of an auditor, financial statements may be prepared on a review basis. Reviews provide limited assurance that the financial information confirms to generally accepted accounting principles.

In performing a review, the accountants would must be independent from the clients and have sufficient knowledge of the industry which the business operates. They would acquire sufficient knowledge of the client's business to make intelligent enquiry and assessment of the information obtained, with the limited objective of determining the plausibility of the information reported on. The review should entail enquiries, analytical procedures and discussion with responsible client officials.

This degree of assurance is less than that resulting from an audit and is expressed as either:

The negative assurance that nothing has come to the accountants' attention that would indicate the financial information is not presented in accordance with generally accepted accounting principles, or

a reservation together with appropriate disclosure and explanation of the reservation.

## Compilation Engagements

The objective of a compilation engagement is to compile unaudited financial information into financial statements, schedules or reports based on information supplied by the client.

A compilation engagement is appropriate only where the client and other users do not need financial information that conforms in all respects to generally accepted accounting principles and audit or review assurance is not required, and where the client understands that the statements may not be appropriate for general purpose use.

The procedures performed are not designed to enable accountants to provide any assurance on the reliability of the compiled information. To warn readers of this lack of assurance, accountants attach a "Notice To Reader" that states that no review was performed on the information (as above) and that the information may not be appropriate for use by the reader. If accountants know, or have reason to believe financial statements or misleading or incorrect, accountants must not associate with this information. A compilation may be applicable where financial statements are prepared for the exclusive use of the company's management or for income tax purposes.

## Annex 2: Exemptions from Public Accountant and Audit Requirements

Table 2 – Exemptions from Public Accountant and Audit Requirements			
Type of Corporation	Annual Revenues (AR) for Previous Financial Year (FY)	Public Accountant (PA)	Audit/Review Engagement/Compilation <sup>34</sup>
Soliciting	AR ≤ \$50,000	PA not required if members entitled to vote at an annual meeting unanimously consent. Waiver must be made annually. <sup>35</sup>	Compilation applies if no PA. If PA appointed, review engagement applies unless members pass an ordinary resolution ( <i>i.e.</i> , not less than a simple majority voting approval) requiring an audit. <sup>36</sup>
	\$50,000 < AR ≤ \$250,000	Appointment of PA required unless (i) the Director is satisfied that deeming AR to be ≤ \$50,000 would not be prejudicial to public interest; and (ii) the other conditions immediately above are met. <sup>37</sup>	Audit may be waived in favour of review engagement by special resolution of members ( <i>i.e.</i> , not less than 2/3rds voting approval). <sup>38</sup>
Soliciting	\$250,000 < AR	Same as immediately above.	Audit required unless (i) the Director is satisfied that deeming AR to be ≤ \$250,000 would not be prejudicial to the public interest and (ii) the other conditions immediately above are met (in which case review engagement applies). <sup>39</sup> If (i) the Director is satisfied that deeming AR to be ≤ \$50,000 would not be prejudicial to the public interest and (ii) the other conditions above for waiving appointment of PA are met, compilation report applies. <sup>40</sup>
Non-Soliciting	AR ≤ \$1,000,000	PA not required if members entitled to vote at an annual meeting unanimously consent. Waiver must be made annually. <sup>41</sup>	Compilation report applies if no PA. If PA appointed, review engagement applies unless members pass ordinary resolution requiring an audit. <sup>42</sup>
	\$1,000,000 < AR	PA required. <sup>43</sup>	Audit required. <sup>44</sup>

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## Annex 3: Requirements for soliciting corporations under the Canada Not-for-profit Corporations Act (NFP Act)

### What is a soliciting corporation?

A corporation is considered soliciting when it has received more than \$10,000 in income from public sources in a single financial year. Public sources include gifts or donations from non-members, grants from government and funds from another corporation that also received income from public sources.

More specifically, a corporation is a soliciting corporation if it receives income during a single financial year in excess of \$10,000 in the form of:

- a. donations or gifts or, in Quebec, gifts or legacies of money or other property requested from any person who is not:
  - i. a member, director, officer or employee of the corporation at the time of the request,
  - ii. the spouse of a person referred to in subparagraph (i) or an individual who is cohabiting with that person in a conjugal relationship, having so cohabited for a period of at least one year, or
  - iii. a child, parent, brother, sister, grandparent, uncle, aunt, nephew or niece of a person referred to in subparagraph (i) or of the spouse or individual referred to in subparagraph (ii);
- b. grants or similar financial assistance received from the federal government or a provincial or municipal government, or an agency of such a government; or
- c. donations or gifts or, in Quebec, gifts or legacies of money or other property from a corporation or other entity that has, during the most recent financial year, received income in excess of \$10,000 in the form of donations, gifts or legacies referred to in paragraph (a) or grants or similar financial assistance referred to in paragraph (b).

### What is a non-soliciting corporation?

A corporation is non-soliciting if it has received no public funds or less than \$10,000 in public funds in each of its three previous financial years.