

AUDIT

# **Martlet Publishing Society**

**Audit Findings Report to the Board**  
For the year ended April 30, 2017

**KPMG LLP**

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# Audit findings summary

## Overview

The purpose of this Audit Findings Report is to assist you, as a member of the Board, in your review of the results of our audit of the financial statements of Martlet Publishing Society (“the Society” or “Martlet”) as at and for the period ended April 30, 2017.

We appreciate the assistance of management and staff in conducting our audit. We trust that this audit findings report is of assistance to you, and we look forward to discussing our findings and answering your questions.

## Scope of the audit

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the financial position, results of operations, and cash flows of the Organization in accordance with Canadian accounting standards for not-for-profit organizations.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

## Our responsibilities

Our responsibilities in carrying out our audit, as well as management’s responsibilities, are set out in the engagement letter.

## Key findings

Areas of focus – Significant unusual transactions	<ul style="list-style-type: none"><li>• No significant unusual transactions were identified as part of our audit.</li></ul>
Areas of focus – Critical accounting estimates	<ul style="list-style-type: none"><li>• There have been no critical accounting estimates identified as part of our audit.</li></ul>
Areas of focus – Significant accounting policies and practices	<ul style="list-style-type: none"><li>• There have been no initial selections of, or changes to, significant accounting policies and practices to bring to your attention.</li></ul>
Areas of focus – Financial statement presentation and disclosure	<ul style="list-style-type: none"><li>• A new BC Societies Act came into effect on November 28, 2016. One of the new financial reporting requirements under the Act is the disclosure of remuneration of directors, employees and contractors in the financial statements. This disclosure was not applicable to the Martlet as no employees or contractors were paid more than \$75,000 during the year and no payments were made to directors.</li></ul>

Misstatements	<ul style="list-style-type: none"> <li>• We did not identify misstatements that remain uncorrected.</li> <li>• Corrected audit misstatements are detailed later in this report.</li> </ul>
Control deficiencies	<ul style="list-style-type: none"> <li>• We identified areas where internal controls could be enhanced. These related to petty cash disbursements, analysis of payments relating to multiple periods and collection of accounts receivable. We do not consider that these recommendations either individually, or in aggregate, indicate a significant control risk.</li> </ul>
Independence	<ul style="list-style-type: none"> <li>• We confirm that we are independent with respect to the Society within the relevant rules and related interpretations prescribed by the relevant professional bodies and any applicable legislation or regulation.</li> </ul>

## Finalizing the audit

As of the date of this report, we have completed the audit of the financial statements, with the exception of certain remaining procedures, which include:

- completing our discussions with the Board;
- obtaining evidence of the Board's approval of the financial statements; and
- obtaining a signed management representation letter.

We will update you on significant matters, if any, arising from the completion of the audit, including the completion of the above procedures. Our audit report will be dated upon the completion of any remaining procedures.

## Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.
- For the current period, materiality of \$4,000 has been determined for the overall financial statements.

## Our audit approach

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. We have not identified any significant financial reporting risks.

Our audit focused on the areas identified during our audit planning as listed below.

- Cash balances were independently confirmed with external parties.
- Accounts receivable tested for recoverability through inspection of receipts subsequent to year end.
- Accounts payable tested for completeness through inspection of payments subsequent to year end.

- Verification of advertising and membership revenues to remittance and bank statements.
- Agreement of a sample of operating expenses to invoice and bank statements.
- Agreed wages and benefits to payroll documents and bank statements.
- The financial statement disclosures were reviewed to ensure disclosures were in accordance with Canadian accounting standards for not-for-profit organizations.
- Cut-off testing of cash accounts, revenues and expenses was performed related to opening balances.

## Areas of focus

Included in this section are significant matters we believe are appropriate for discussion with the Board of Directors.

<b>Employee, Director and Contractor Remuneration</b>
<ul style="list-style-type: none"><li>• A new BC Societies Act came into effect on November 28, 2016. One of the new financial reporting requirements under the Act is the disclosure of remuneration of directors, employees and contractors in the financial statements prepared after the effective date of the new Act of November 28, 2016.</li><li>• As a result, the Society is required to disclose the number and dollar value of employees and contractors earning greater than \$75,000 for the period.</li><li>• Further, the Society is required to disclose all directors that have been paid during the fiscal year. The disclosure is to include the director's position or title, the amount of remuneration and if the remuneration for acting a capacity other than a director, the description of the capacity in which each such director acted.</li></ul>
<b>KPMG comments</b>
<ul style="list-style-type: none"><li>• We obtained a listing of all employees of the Society and verified that no employees earned greater than \$75,000 for the period. We confirmed that all directors are voluntary positions and therefore received no remuneration during the fiscal year. No disclosure is required for the Society.</li></ul>

<b>Accounts receivable</b>
<ul style="list-style-type: none"><li>• Martlet has two main revenue streams, advertising and memberships. Whilst membership revenue is only received from University of Victoria Student Society ("UVSS"), advertising revenue may be received from a variety of different customers. Accounts receivable balances are generated where the cash payment has not been received by the Society after the services have been provided. Where balances have been outstanding for a significant period of time, it is best practice to write these off or create an allowance against the amounts if they are unlikely to be collectable.</li></ul>
<b>KPMG comments</b>
<ul style="list-style-type: none"><li>• KPMG performed the following work over the accounts receivable balance:<ul style="list-style-type: none"><li>○ Reviewed individual customer balances as at April 30, 2017 and the aging of such balances to consider any amounts which may not be collectable.</li><li>○ Agreed cash receipts subsequent to April 30, 2017 to individual balances to verify collectability of balances.</li></ul></li><li>• KPMG identified that \$5,429 of accounts receivable had not been received by December 14, 2017. From discussion with management it was identified that these balances were not collectable. Therefore an adjustment was raised to write off these balances.</li><li>• From review of amounts received subsequent to year end, it was identified that receipts from one customer had been recognized (credited) as accounts receivable, however the customer did not have an accounts receivable balance with the Society to offset the entry. On further investigation, this recognition of receipts had occurred in the year to April 30, 2016 as well. Adjustments were raised to appropriately recognize these transactions as revenue instead of accounts receivable in both years.</li></ul>

# Misstatements

Misstatements identified during the audit have been categorized as follows:

- corrected misstatements, including disclosure misstatements
- uncorrected misstatements, including disclosure misstatements.

## **Corrected misstatements**

We identified adjustments that were communicated to management and subsequently corrected in the financial statements. These are detailed in the management representation letter in the appendix to this report.

## **Uncorrected misstatements**

We did not identify differences that remain uncorrected.

# Control deficiencies

## Background and professional standards

As your auditors, we are required to obtain an understanding of internal control over financial reporting (ICFR) relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on internal control. Accordingly, we do not express an opinion on the effectiveness of internal control.

Our understanding of ICFR was for the limited purpose described above and was not designed to identify all control deficiencies that might be significant deficiencies and therefore, there can be no assurance that all significant deficiencies and other control deficiencies have been identified. Our awareness of control deficiencies varies with each audit and is influenced by the nature, timing, and extent of audit procedures performed, as well as other factors.

## Identification

We identified areas where internal controls could be enhanced. These related to the following areas:

- Petty cash disbursements.

Petty cash is used to purchase small items, largely food and beverage for consumption by the Society. Whilst receipts are kept, the amounts held in petty cash are not reconciled, and therefore such purchases lack appropriate supporting documentation. We recommend that a monthly reconciliation of petty cash is performed to prevent the risk of misappropriation of assets.

- Analysis of payments relating to multiple periods.

Our audit procedures identified two purchases which related to services to be provided for a period which overlapped fiscal year end. We recommend management and the bookkeeper analyze such purchases and include the relevant prepayment in annual financial statements on an accrual basis.

- Collection of accounts receivable.

As discussed earlier in this report, a material balance of accounts receivable was deemed not be collectable. We recommend management reviews the accounts receivable balance on a monthly or quarterly basis to determine if balances can be collected or should be written off.

We do not consider that these recommendations either individually, or in aggregate, indicate a significant control risk.



# Appendices

**Management representation letter**

**Current developments**

## Management representation letter

Prior to release of the auditors' report, the Business Manager will be providing KPMG with a letter confirming their conclusion that the accounts are fairly presented, complete and accurately reported in the financial statements.

The anticipated form of this letter is included in the following pages.

MARTLET PUBLISHING SOCIETY  
PO BOX 3035 UNIVERSITY OF VICTORIA  
VICTORIA, BC V8W 3P3

KPMG LLP  
Chartered Accountants  
St. Andrew's Square II  
800 – 730 View Street  
Victoria, BC V8W 3Y7

Date

Ladies and Gentlemen:

We are writing at your request to confirm our understanding that your audit was for the purpose of expressing an opinion on the financial statements (hereinafter referred to as “financial statements”) of Martlet Publishing Society (“the Entity”) as at and for the period ended April 30, 2017.

**General:**

We confirm that the representations we make in this letter are in accordance with the definitions as set out in [Attachment I](#) to this letter.

We also confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Responsibilities:**

- 1) We have fulfilled our responsibilities, as set out in the terms of the engagement letter dated December 15, 2017, including for:
  - a) the preparation and fair presentation of the financial statements and believe that these financial statements have been prepared and present fairly in accordance with the relevant financial reporting framework.
  - b) providing you with all information of which we are aware that is relevant to the preparation of the financial statements, such as all financial records and documentation and other matters, including (i) the names of all related parties and information regarding all relationships and transactions with related parties; and (ii) the complete minutes of meetings, or summaries of actions of recent meetings for which minutes have not yet been prepared, of board of directors and committees of the board of directors that may affect the financial statements, and providing you with access to such relevant information. All significant board and committee actions are included in the summaries.
  - c) providing you with additional information that you may request from us for the purpose of the engagement.
  - d) providing you with unrestricted access to persons within the Entity from whom you determined it necessary to obtain audit evidence.
  - e) such internal control as we determined is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. We

also acknowledge and understand that we are responsible for the design, implementation and maintenance of internal control to prevent and detect fraud.

- f) ensuring that all transactions have been recorded in the accounting records and are reflected in the financial statements.
- g) providing you with written representations that you are required to obtain under your professional standards and written representations that you determined are necessary.

***Internal control over financial reporting:***

- 2) We have communicated to you all deficiencies in the design and implementation or maintenance of internal control over financial reporting of which we are aware.

***Fraud & non-compliance with laws and regulations:***

- 3) We have disclosed to you:
  - a) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  - b) all information in relation to fraud or suspected fraud that we are aware of and that affects the financial statements and involves: management, employees who have significant roles in internal control over financial reporting, or others, where the fraud could have a material effect on the financial statements.
  - c) all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements, communicated by employees, former employees, analysts, regulators, or others.
  - d) all known instances of non-compliance or suspected non-compliance with laws and regulations, including all aspects of contractual agreements, whose effects should be considered when preparing financial statements.
  - e) all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

***Subsequent events:***

- 4) All events subsequent to the date of the financial statements and for which the relevant financial reporting framework requires adjustment or disclosure in the financial statements have been adjusted or disclosed.

***Related parties:***

- 5) We have disclosed to you the identity of the Entity's related parties.
- 6) We have disclosed to you all the related party relationships and transactions/balances of which we are aware.
- 7) All related party relationships and transactions/balances have been appropriately accounted for and disclosed in accordance with the relevant financial reporting framework.

***Estimates:***

- 8) Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

***Going concern:***

- 9) We have provided you with all information relevant to the use of the going concern assumption in the financial statements.

- 10) We confirm that we are not aware of material uncertainties related to events or conditions that may cast significant doubt upon the Entity's ability to continue as a going concern.

***Misstatements:***

- 11) We approve the corrected misstatements identified by you during the audit described in [Attachment II](#).

Yours very truly,

I have the recognized authority to take, and assert that I have taken, responsibility for the financial statements

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By: Alex Coates, Business Manager

Cc: Board of Directors

## **Attachment I – Definitions**

### **MATERIALITY**

Certain representations in this letter are described as being limited to matters that are material. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both.

### **FRAUD & ERROR**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

### **RELATED PARTIES**

In accordance with Canadian accounting standards for not-for-profit organizations a *related party* is defined as:

- Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. Two not for profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

In accordance with Canadian accounting standards for not-for-profit organizations a *related party transaction* is defined as:

- A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. When the relationship arises as a result of the transaction, the transaction is not one between related parties.

**Martlet Publishing Society****G3**

Year End: April 30, 2017

Adjusting Journal Entries

Date: 5/1/2015 To 4/30/2017

Number	Date	Type	Name	Account No	Debit	Credit
1	4/30/2017	N	Accounts Receivable	1-2000		5,428.50
1	4/30/2017	N	Bad Debt Expense	6-3020	5,428.50	
To write-off of uncollectible accounts receivable						
2	4/30/2017	N	Accounts Receivable	1-2000	2,008.74	
2	4/30/2017	N	Members' Equity-Previous Year	3-8000		866.39
2	4/30/2017	N	Local Sales	4-2100		1,142.35
To remove credits in accounts receivable and recognize revenue						
3	4/30/2017	N	Accounts Payable	2-2000		1,196.04
3	4/30/2017	N	GST Paid	2-3200	20.25	
3	4/30/2017	N	Staff Training & Development	6-2300	226.24	
3	4/30/2017	N	Conference/ Meeting/ Travel	6-2310	58.87	
3	4/30/2017	N	Bank Charges	6-3022	6.71	
3	4/30/2017	N	Office Supplies, food	6-3041	169.90	
3	4/30/2017	N	Office Supplies	6-3042	61.63	
3	4/30/2017	N	Website	6-3075	87.01	
3	4/30/2017	N	Fax	6-3080	8.95	
3	4/30/2017	N	Payroll Expenses	6-5200	556.48	
To record expenses and payables in the correct year						
4	4/30/2017	N	Prepaid Expenses	1-3100	1,569.50	
4	4/30/2017	N	Insurance	6-3035		1,569.50
To record and allocate a portion of insurance expense to prepaid.						
5	4/30/2016	P	Accounts Receivable	1-2000	866.39	
5	4/30/2016	P	Local Sales	4-2100		866.39
To adjust prior year AR and Revenue						
6	4/30/2017	N	Accounts Payable	2-2000		1,191.73
6	4/30/2017	N	Printing Costs	5-1000	1,191.73	
To record an invoice related to FY2017 as an expense and payable as at year end.						
					<b>12,260.90</b>	<b>12,260.90</b>
<b>Net Income (Loss)</b>				<b>18,473.13</b>		

# Current Developments

## British Columbia Societies Act

The new British Columbia Societies Act became effective November 28, 2016. Existing societies will have to transition under the new Act within two years after November 28, 2016. Management should consult with their legal counsel on the potential implications of the Act to the Organization.

## Canadian Accounting Standards for Not for Profit Organizations

In 2015, AcSB created the Not-for-Profit Advisory Committee to act in an advisory capacity to the AcSB with respect to accounting standards for not-for-profit organizations (NFPOs) in the private sector. The mandate of the committee is to assist the AcSB in developing improvements to private sector not-for-profit accounting and reporting.

The AcSB has approved three projects to address the following accounting standards areas:

### i. Accounting Standards Improvement – Phase 1

- Tangible capital assets
- Intangible assets
- Works of art, historical treasures, collections and similar items
- Related party transactions
- Allocated expenses

### ii. Accounting Standards Improvement – Phase 2

- Controlled and related entities
- Expense reporting by function and object
- Economic interests

### iii. Contributions – Revenue Recognition and Related Matters

- Contributions
- Size exemption (\$500,000) for tangible capital assets and intangibles
- Financial statement presentation

An **exposure draft** has recently been issued on **Tangible Capital Assets, Intangible Assets and Collections** in Part III Accounting Standards for Not-for-Profit Organizations of the CPA Canada Handbook - Accounting.

The key features of the proposals are summarized as follows:

### **Tangible Capital Assets & Intangible Assets (current sections 4431 & 4432 to be replaced by 4433 & 4434):**

- NFPOs would be directed to follow PROPERTY, PLANT AND EQUIPMENT, Section 3061, GOODWILL AND INTANGIBLE ASSETS, Section 3064, and ASSET RETIREMENT OBLIGATIONS, Section 3110 in Part II of the Handbook for tangible capital assets and intangible assets held by NFPOs, except for the guidance included in Sections 4433 and 4434 related to items such as contributed assets and write-downs of assets. Applying Section 3061 would include considering the guidance on componentization (see paragraph 3061.18).
- A tangible capital asset or intangible asset would be written down to its fair value or replacement cost to reflect a partial impairment of the asset when conditions indicate that the asset no longer contributes to an organization's ability to provide goods and services, or



that the value of future economic benefits or service potential associated with the asset is less than its net carrying amount.

- A list of indicators would provide examples of conditions that may be present to indicate impairment of tangible capital assets or intangible assets.
- NFPOs would be directed to follow the disclosure requirements in IMPAIRMENT OF LONG LIVED ASSETS, Section 3063 in Part II for impairments of tangible capital assets and intangible assets.

#### **Works of art, historical treasures and similar items not part of a collection**

- NFPOs would continue to account for works of art, historical treasures and similar items not part of a collection as tangible capital assets, intangible assets, investments or as inventory type items depending on their intended use (i.e., in accordance with INVENTORIES HELD BY NOT-FOR-PROFIT ORGANIZATIONS, Section 3032, and INVESTMENTS, Section 3051 in Part II, and Sections 4433 or 4434).

#### **Collections (current section 4440 to be replaced by 4441):**

- Collections would be recorded on the statement of financial position.
- An NFPO would make an accounting policy choice to record collections at cost or at nominal value and that choice would be applied to all of its collections.
- Guidance on determining cost would be added. A collection recorded at cost would be written down to its fair value or replacement cost to reflect partial impairment of the collection whenever events or changes in circumstances indicate that its net carrying value may exceed fair value.
- A list of indicators would provide examples of conditions that may be present to indicate impairment of a collection.
- Guidance on disposing of items in a collection would be added. For disposal of items contributed to a collection that are subject to external restrictions, the gain or loss would be accounted for in accordance with CONTRIBUTIONS — REVENUE RECOGNITION, Section 4410. However, for items in a collection that do not have external restrictions and are disposed of, the gain or loss would be recognized in the statement of operations.
- An NFPO would disclose whether the write-down of a collection is measured at the collection's fair value or replacement.

The deadline for comments on the exposure draft was May 31, 2017 with final standards expected to be issued in 2<sup>nd</sup> quarter of 2018 and proposed effective date for fiscal years beginning on or after January 1, 2019.

KPMG in Canada, in collaboration with Imagine Canada, presented a webinar on the exposure draft. We encourage you to view this webinar on Imagine Canada's website at: [Not-for-Profit Accounting Standards with KPMG](#)

Further information on the Committee and future meeting topics can be found at the following link: <http://www.frascanada.ca/standards-for-not-for-profit-organizations/acsb-not-for-profit-advisory-committee/meeting-notes/item83541.aspx>

## **Cyber Security - It's more than just Technology**

Organizations are subject to increasing amounts of legislative and public pressures to show they are managing and protecting their information appropriately. Simultaneously, the threats from cyber criminals and hacktivists are growing in scale and sophistication. Organizations are also increasingly vulnerable as a result of technological advances and changing working practices including remote access, cloud computing, mobile technology and services on demand. The financial and reputational costs of not being prepared against a cyber-attack could be significant.

Cyber Security is not solely about Information Technology; it is fundamentally an operational and governance issue. Not-for-profit organizations should develop an operations-wide understanding of their threats, safeguards, and responses. Preparing this summary diagnostic will require the involvement of individuals in all areas of the organization, including those involved in hiring, procurement, customer relations and management. Key elements to consider include:

- Assessing the likelihood and intensity of a cyber-attack, based on the value of your information and your public profile
- Assessing your vulnerabilities to a cyber-attack
- Preparing your people, processes, infrastructure and technology to resist a cyber-attack, and to minimize its impact
- Detecting a cyber-attack and initiating your response
- Containing and investigating the cyber-attack
- Recovering from a cyber-attack and resuming business operations
- Reporting on and improving security

Not-for-profit organizations are at particular risk due to the information they maintain, including research data, member or student data, and health information. The reputational risk of this information not being adequately protected can often outweigh the financial consequences of a breach.

Not-for-profit organizations need to review their operations and consider cyber risks, then assess the organization's cyber maturity in addressing those risks. Structured models for completing this exercise exist for organizations of all sizes, as no one is immune to the risk of a cyber-attack.

KPMG in Canada, in collaboration with Imagine Canada, recently presented a webinar called "*Cyber Security: The new threat for Not-for-Profit Organizations*". We encourage you to view this webinar on Imagine Canada's website at:

<http://sectorsource.ca/resource/video/cyber-security-not-profit-organizations-presented-kpmg>

## **The importance of Enterprise Risk Management to a Not-for-Profit organization**

Not-for-Profit organizations are facing unprecedented challenges in terms of ensuring that they can:

- fulfill growing client, stakeholder and donor demands;
- adapt to changing demographics;
- strengthen corporate governance;
- respond to greater transparency and accountability expectations;
- attract and retain highly qualified and experienced staff;
- meet ever increasing operating and capital needs;
- rise to competitive challenges;
- leverage information technology to improve service delivery and administration; and
- protect and enhance brand and reputation.

Strong governance, supported by effective risk management, are foundational to a Not-for-Profit organization's ability to anticipate and effectively respond to these complex challenges.

[www.kpmg.ca](http://www.kpmg.ca)

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