Northwest Atlantic Fisheries Organization

STACFAD WP 22-16
[Agenda Item 04]

44th ANNUAL MEETING – SEPTEMBER 2022

Amendment to the NAFO Financial Regulations
to Update Pension Plan Accounting Policy
(Prepared by the NAFO Secretariat)

Background Information

As agreed at the last Annual Meeting, Baker Tilly Nova Scotia Inc. was appointed to perform the audit for the 2021 fiscal year. The Auditors have noted in their Draft Audit Committee Letter (see attached) that there is a small inconsistency with the Organization's policy not to record/recognize the pension plan assets in the NAFO Financial Regulations and the Basis of Accounting used in the financial statements. The auditors recommend amending the wording of the NAFO Financial Regulations to be consistent with the Basis of Accounting used in the financial statements.

Baker Tilly Recommendation - Page 6 of Draft Audit Committee Letter

Other Matters

Per Paragraph 7.6(a) of the NAFO Financial Regulations there is mention that the Organization does not record/recognize the pension obligation but no mention that the plan assets are also not recorded. This may appear to be inconsistent with Note 2 "Basis of Accounting" per the financial statements which make specific mention of the plan assets not being recorded.

Although it is clear that the organization records neither the pension obligation or plan assets, we would recommend amending the wording of the Regulations to be consistent with the Basis of Accounting used in the financial statements.

Proposal

The NAFO Secretariat agrees with the Auditors recommendation to amend the first sentence of Rule 7.6(a) of the NAFO Financial Regulations to add the phrase "or plan assets".

Rule 7.6 of the NAFO Financial Regulations

7.6 The annual financial statements shall be prepared in conformity with these financial rules in a manner consistent with Canadian generally accepted accounting principles for not-for-profit organizations (GAAP) with the following exceptions:

a) The Organization does not record the pension obligation ***or plan assets*** *relating to its defined benefit pension plan. The Organization uses the pension valuation report provided by the International Fisheries Commission Pension Society (IFCPS) to determine the pension expense at a minimum on a triennial basis. The pension expense consists of the employer portion of the current service pension contribution plus any additional yearly payments required by the IFCPS (as shown in the current valuation report) that are necessary to extinguish the unfunded portion of the pension obligation;*

Attachment 1

Baker Tilly
Draft Audit Committee Letter

Members of the Audit Committee
Northwest Atlantic Fisheries Organization
1601 Lower Water Street, Suite 401
Halifax, NS
B3J 3P6

Re: Audit of the Financial Statements of Northwest Atlantic Fisheries Organization

We have been engaged to express an audit opinion on the financial statements of Northwest Atlantic Fisheries Organization ("the organization") for the year ended December 31, 2021. We have substantially completed our audit and are pleased to report on the following items.

The purpose of this report is to summarize certain aspects of the audit that we believe to be of interest to the Audit Committee. This report should be read in conjunction with the draft financial statements and our report thereon.

Auditors' Independence

Through our planning process, we identify any potential independence threats and communicate any concerns we identify. The organization, management and the Audit Committee have a proactive role in this process, and are responsible for understanding the independence requirements applicable to the organization and its auditors. You must bring to our attention any concerns you may have, or any knowledge of situations or relationships between the organization, management, personnel (acting in an oversight or financial reporting role) and our Firm, its partners/principals and audit team personnel that may reasonably be thought to bear on our independence.

In determining which relationships to report, these standards require us to consider relevant rules and related interpretations prescribed by the Chartered Professional Accountants of Nova Scotia and applicable legislation, covering such matters as:

(a) Holding a financial interest, either directly or indirectly, in a client;

(b) Holding a position, either directly or indirectly, that gives the right or responsibility to exert significant influence over the financial or accounting policies of a client;

(c) Personal or business relationships of immediate family, close relatives, partners or retired partners, either directly or indirectly, with a client;

(d) Economic dependence on a client; and

(e) Provision of services in addition to the audit engagement.

In accordance with our professional requirements, we advise you that we are not aware of any relationships between the organization and our Firm that, in our professional judgement, may reasonably be thought to bear on our independence.

Accordingly, we hereby confirm that our audit engagement team, our Firm and the other Baker Tilly Canada offices are independent with respect to the organization within the meaning of the Code of Professional Conduct Rule 204 of the Chartered Professional Accountants of Nova Scotia.

Our Responsibilities as Auditors

As stated in the engagement letter, our responsibility as auditors of your organization is to express an opinion on whether the financial statements present fairly, in all material respects, the financial position, results of operations and cash flows of the organization in accordance with ASNPO with financial reporting provisions Paragraph 7.6, Rule 7 of the NAFO Rules of Procedure and Financial Regulations.

An audit is performed to obtain reasonable but not absolute assurance as to whether the financial statements are free of material misstatement. Due to the inherent limitations of an audit, there is an unavoidable risk that some misstatements of the financial statements will not be detected (particularly intentional misstatements concealed through collusion), even though the audit is properly planned and performed.

Our audit includes:

- Assessing the risk that the financial statements may contain material misstatements that, individually or in the aggregate, are material to the financial statements taken as a whole;
- Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- Assessing the accounting principles used, and their application;
- Assessing the significant estimates made by management;
- Concluding on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the organization's ability to continue as a going concern; and
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

As part of our audit, we obtained a sufficient understanding of the business and internal control structure of the organization to plan the audit. This included management's assessment of:

- The risk that the financial statements may be materially misstated as a result of fraud and error; and
- The internal controls put in place by management to address such risks.

The engagement team undertook a documented planning process prior to commencement of the audit to identify concerns, address independence considerations, assess the engagement team requirements, and plan the audit work and timing.

An audit does not relieve management or those responsible for governance of their responsibilities for the preparation of the organization's financial statements.

Audit Committee's Responsibilities

The Audit Committee's role is to act in an objective, independent capacity as a liaison between the auditors, management and the commission to ensure the auditors have a facility to consider and discuss governance and audit issues with parties not directly responsible for operations.

The Audit Committee's responsibilities include:

- Being available to assist and provide direction in the audit planning process when and where appropriate;
- Meeting with the auditors as necessary and prior to release and approval of financial statements to review audit, disclosure and compliance issues;
- Where necessary, reviewing matters raised by the auditors with appropriate levels of management, and reporting back to the auditors their findings;

- Making known to the auditors any issues of disclosure, corporate governance, fraud or illegal acts, non-compliance with laws or regulatory requirements that are known to them, where such matters may impact the financial statements or Independent Auditors' Report;
- Providing guidance and direction to the auditors on any additional work the auditors feel should be undertaken in response to issues raised or concerns expressed;
- Making such enquiries as appropriate into the findings of the auditors with respect to corporate governance, management conduct, cooperation, information flow and systems of internal controls;
- Reviewing the draft financial statements prepared by management, including the presentation, disclosures and supporting notes and schedules, for accuracy, completeness and appropriateness, and approving same to be passed to directors for approval; and
- Pre-approving all professional services and allowable consulting services to be provided by the auditors.

Audit Approach

Outlined below are certain aspects of our audit approach which are intended to help you in discharging your oversight responsibilities. Our general approach to the audit of Northwest Atlantic Fisheries Organization was to assess the risks of material misstatement in the financial statements and then respond by designing audit procedures.

Independent Auditors' Report

We anticipate that our Independent Auditors' Report will be issued without modification.

Our Independent Auditors' Report will be dated no earlier than the date on which we have obtained sufficient appropriate audit evidence on which to base our audit opinion on the financial statements, including evidence that all the statements and disclosures that comprise the financial statements have been prepared and the Board of Directors has approved the financial statements.

Illegal Acts, Fraud, Intentional Misstatements and Errors

Our auditing procedures, including tests of your accounting records, were limited to those considered necessary in the circumstances and will not necessarily disclose all illegal acts should any exist. Under CAS, we consider the organization's control environment, governance structure, circumstances encountered during the audit and the potential likelihood of fraud and illegal acts occurring.

These procedures are not designed to test for fraudulent or illegal acts, nor will they necessarily detect such acts or recognize them as such, even if the effect on the financial statements is material. However, should we become aware that an illegal or possibly illegal act or act of fraud may have occurred, other than one considered clearly inconsequential, we will communicate directly to the Audit Committee.

It is management's responsibility to detect and prevent illegal action. If such acts are discovered or the Audit Committee members become aware of circumstances under which the organization may have been involved in fraudulent, illegal or regulatory non-compliance situations, such circumstances must be disclosed to us.

Testing during our audit did not reveal any illegal, improper or questionable payments or acts, nor any acts committed with the intent to deceive, involving either misappropriation of assets or misrepresentation of assets or misrepresentation of financial information.

Related Party Transactions

During our audit, we conduct various tests and procedures to identify transactions considered to involve related parties. 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. Related parties also include management, directors and their immediate family members and companies with which these individuals have an economic interest.

There were no related party transactions identified during the audit that required disclosure in the notes to the financial statements.

Significant Accounting Principles and Policies

Management is responsible for the appropriate selection and application of accounting policies. Our role is to review the appropriateness and application as part of our audit. The significant accounting principles and policies are disclosed in the notes to the financial statements.

The accounting policies adopted may be acceptable policies under ASNPO with financial reporting provisions Paragraph 7.6, Rule 7 of the NAFO Rules of Procedure and Financial Regulations; however, alternative policies may also be acceptable under ASNPO with financial reporting provisions Paragraph 7.6, Rule 7 of the NAFO Rules of Procedure and Financial Regulations. The organization and the Audit Committee have a responsibility to not adopt extreme or inappropriate interpretations of ASNPO with financial reporting provisions Paragraph 7.6, Rule 7 of the NAFO Rules of Procedure and Financial Regulations that may have inappropriate or misleading results. Alternative policies, if adopted, may produce significant changes in the reported results of the operations, financial position and disclosures of the organization.

The Audit Committee has a responsibility to review the accounting policies adopted by the organization, and where alternative policies are available, make determinations as to the most appropriate policies to be adopted in the circumstances. If members of the Audit Committee believe that the adoption or change in accounting policy may produce an inappropriate or misleading result in financial reporting or disclosure, this concern must be discussed with management and us.

There were no new accounting policies adopted or changes to the application of accounting policies of the organization during the year.

Accounting Estimates

Management is responsible for the accounting estimates included in the financial statements. Estimates and the related judgements and assumptions are based on management's knowledge of the business and past experience about current and future events.

Our responsibility as auditors is to obtain sufficient appropriate evidence to provide reasonable assurance that management's accounting estimates are reasonable within the context of the financial statements as a whole. An audit includes performing appropriate procedures to verify the:

- Calculation of accounting estimates;
- Analyzing of key factors such as underlying management assumptions;
- Materiality of estimates individually and in the aggregate in relation to the financial statements as a whole;
- Estimate's sensitivity to variation and deviation from historical patterns;
- Estimate's consistency with the entity's business plans; and
- Other audit evidence.

Risk-based

Our risk-based approach focuses on obtaining sufficient appropriate audit evidence to reduce the risk of material misstatement in the financial statements to an appropriately low level. This means that we focus our audit work on areas that have a higher risk of being materially misstated.

Key Audit Matters

There are no key audit matters to be communicated in the auditors' report.

Materiality

Materiality is used throughout the audit and in particular when:

a) Identifying and assessing risk of material misstatement;

b) Determining the nature, timing and extent of further audit procedures; and

c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements and in forming an opinion on the Auditors' Report.

Materiality is defined as:

Materiality is the term used to describe the significance of financial statement information to decision makers. An item of information, or an aggregate of items, is material if it is probable that its omission or misstatement would influence or change a decision. Materiality is a matter of professional judgement in the particular circumstances.

We used an overall materiality of $60,000 and a performance materiality of $48,000. The overall materiality for last year's audit was $65,000 and the performance materiality was $48,750.

Audit Procedures

The objective of the tests of controls is to evaluate whether certain controls operated effectively. The objective of the tests of details is to detect material misstatements in the account balances and transaction streams. Substantive analytical procedures are used to identify differences between recorded amounts and predictable expectations in larger volumes of transactions over time.

In response to our risk assessment and based on our understanding of internal controls, we adopted a substantive approach for the audit.

Evaluation of Internal Controls

Audits include a review and evaluation of the system of internal controls to assist in determining the level of reliance that may or should be placed on the system in assessing the nature and extent of audit procedures to be undertaken.

During the course of our audit, we encountered the following specific internal control matters that we wish to bring to your attention:

Segregation of Duties

<u>Observation and implication</u>

In common with small not-for-profit organizations lack of segregation of duties were noted within accounts receivable and payables functions. The Senior Finance has access to both the accounting software, master files (accounts payable) and/or the physical assets (cheques). Fraud risk due to override of controls exists when staff have access to both an asset and the recording function for the related asset.

<u>Recommendation</u>

Management should review the processes in place to determine whether better allocation of duties is possible. Although limited staffing in the accounting functions makes establishing sufficient segregation of duties challenging, management should consider detective controls available to mitigate the risk.

Significant Misstatements

In the course of our audit, we have not found any material misstatements or unadjusted items that, in aggregate, exceed materiality thresholds established for the audit, nor have we found significant misstatements that would likely cause future financial statements to be materially misstated.

Uncorrected Misstatements

In the course of our audit, we have aggregated uncorrected financial statement misstatements which are summarized in the accompanying schedule. Management has deemed the effects of these misstatements to be immaterial, both individually and in the aggregate, to the financial statements taken as a whole. To date, management has not agreed to correct these misstatements. Under CAS, we are required to request that the Audit Committee approves the correction of these misstatements.

Significant Unusual Transactions

We are not aware of any significant transactions entered into by the organization that you should be informed about.

Disagreements with Management

We are required to communicate any disagreements with management, whether or not resolved, about matters that are individually or in aggregate significant to the organization's financial statements or Auditors' Report. Disagreements may arise over:

- Selection or application of accounting principles;
- Assumptions and related judgements for accounting estimates;
- Financial statement disclosures;
- Scope of the audit; or
- Wording of the Auditors' Report.

In the course of our audit, we did not have any significant disagreements with management, nor were we under any significant time pressures or poor working conditions. We are not aware of any cause for concern as to management's attitude, competence or credibility with respect to matters affecting the financial statements.

Consultation with Other Accountants (Second Opinions)

Management may consult with other accountants about auditing and accounting matters to obtain a "second opinion". When an entity requests that another accountant provide a written report or oral advice on the application of accounting principles to a specific transaction or the type of opinion that may be rendered on the entity's financial statements, we are required to ensure that the accountant has ensured that the reporting accountant has knowledge of all facts and circumstances and has conducted the engagement in accordance with CAS on the Reports on the Application of Accounting Principles.

We are not aware of any consultations that have taken place with other accountants.

Other Matters

Per Paragraph 7.6(a) of the NAFO Financial Regulations there is mention that the Organization does not record/recognize the pension obligation but no mention that the plan assets are also not recorded. This may appear to be inconsistent with Note 2 "Basis of Accounting" per the financial statements which make specific mention of the plan assets not being recorded.

Although it is clear that the organization records neither the pension obligation or plan assets, we would recommend amending the wording of the Regulations to be consistent with the Basis of Accounting used in the financial statements.

Difficulties Encountered During the Audit

We encountered no significant difficulties during our audit that should be brought to the attention of the Audit Committee.

Management Letter

We will be submitting to management a letter on internal controls and any other matters that we feel should be brought to the attention of management. We are attaching draft points for your perusal.

Conclusion

We wish to express our appreciation for the co-operation we received during the audit from the organization's management.

Should any member of the Audit Committee wish to discuss or review any matter addressed in this letter or any other matters related to financial reporting, please do not hesitate to contact us at any time.

Yours very truly,

Baker Tilly Nova Scotia Inc.
per: Tonia O'Rielly, CPA, CA

Schedule of Misstatements

Description of Misstatement	Proposed Adjustments Dr (Cr): Statement of Income: Identified Misstatements	Statement of Income: Likely Aggregate Misstatements	Balance Sheet: Assets	Balance Sheet: Liabilities	Balance Sheet: Opening Equity
To reverse server lease accrual that relates to F2022	(14,727)	(14,727)	-	14,727	-
a) Totals		(14,727)	-	14,727	-
b) Misstatements corrected by management		-	-	-	-
c) Likely aggregate misstatements net of corrections (a - b)		(14,727)	-	14,727	-
d) Effect of unadjusted misstatements from previous year's errors		-	-	-	-
e) Aggregate likely misstatements (c + d)		(14,727)	-	14,727	-
f) Final overall materiality		60,000	60,000	60,000	60,000
g) Amount remaining for further possible misstatement (f - e)		45,273	60,000	45,273	60,000