AGENDA

• What should organizations be concerned about?
  – Advantages of going paperless
  – Disadvantages of going paperless
  – How will the control environment change?
  – How to reduce the risk of fraud and error
  – Does size matter?

• What are the auditors concerned about?
  – The control environment and an efficient audit
  – Example of potential impact on audit testing
  – How does the auditor verify approval of documents
WHAT SHOULD ORGANIZATIONS BE CONCERNED ABOUT?
WHAT SHOULD ORGANIZATIONS BE CONCERNED ABOUT?

• Advantage of going paperless
  – Use less physical space
    • remove bulky filing cabinets
  – Relocate to smaller office or building (save money on lease)
  – Use of e-mails and electronic data replaces the need to print (reduce expense)
  – The chance of losing important documentation decreases – potential for misfiled paper documentation is high
  – Employees have potential to work remotely –
    • flexible schedules
    • may improve efficiency and morale
  – Positive appearance –
    • environmentally friendly
    • cutting edge organization
WHAT SHOULD ORGANIZATIONS BE CONCERNED ABOUT?

• Disadvantages of going paperless
  – Up to date computer hardware and software are essential
  – May have to upgrade your systems initially and keep upgraded
    • There is a cost associated with such upgrades
  – May need to hire IT person in your organization
  – Train new users
  – Back up systems becomes increasingly important
  – Maintain tighter security for access to information
    • Privacy and viruses
  – Time to change – some people are reluctant to change
  – Human error – improperly scanned documents can result in incomplete records, files not named properly are hard to find.
WHAT SHOULD ORGANIZATIONS BE CONCERNED ABOUT?

- Control environment
  - Most concerns are similar to a paper environment
    - Ensure documents are not lost
    - Ensure documents are properly stored and easily accessible
    - Ensure documents are authentic and not doctored
  - Change focus from physical access to data integrity
    - Physical access
      - Locked rooms
      - Storage of confidential documents, etc.
    - Data integrity
      - User identification
      - Request authorization
      - Activity Log
WHAT SHOULD ORGANIZATIONS BE CONCERNED ABOUT?

• How can fraud occur?
  – In a paperless environment there will be a need for different controls, potentially stronger controls.
  – Establish an audit committee to evaluate internal controls
  – An auditor can provide an evaluation of controls.
  – Review controls annually
WHAT SHOULD ORGANIZATIONS BE CONCERNED ABOUT?

• Size doesn’t always matter
• Example of organization with budget of revenue under $50,000:
  – Board members are from different locations across the country
  – Access to records was difficult
  – Controls were being phased out due to limitations

  – Going paperless could help
  – Key to success is proper planning and being organized
WHAT ARE AUDITORS CONCERNED ABOUT?
WHAT ARE AUDITORS CONCERNED ABOUT?

The control environment and an efficient audit

- We want a strong understanding your business and control environment
  - Focus on areas that have a higher risk of misstatement
  - Leads to a more efficient audit
  - We can make recommendations for improvements to internal controls

- If your organization is paperless
  - We will need more planning time
    - Discuss what has changed with management
    - Update our understanding of the new controls and test to ensure working properly
    - Assess the risk of misstatement
    - Determine what tests can be performed to reduce that risk
WHAT ARE AUDITORS CONCERNED ABOUT?

The control environment and an efficient audit

• Are there documented controls that we can rely on to reduce control risk
  – Outsourced IT organizations may have an audit on internal controls to ensure operating effectively.
  – If controls are well documented and working without error, we can test controls to reduce our testing elsewhere.
WHAT ARE AUDITORS CONCERNED ABOUT?

• Example of reduced control risk on audit procedures

  – An organization that has $300,000 in purchases with no one transaction being material. Depending on the materiality level and risk assessment, we can be reviewing as many as 30 to 40 transactions.

  – We could potentially test controls (if strong) reducing our sample to as low as 10.

  – Other procedures are available to reduce our sample, but consider the impact of an organization with purchases of $800,000 or $2,000,000.
WHAT ARE AUDITORS CONCERNED ABOUT?

• What constitutes approval of documents in a paperless environment

• Example of purchase stream
  – Invoices / bank statements / cancelled cheques / purchase orders
    • the authenticity may be difficult to evaluate, but there are similar concerns with paper documents that can be manipulated.
  • What about EFTs or on-line bank statements?
• What constitutes approval of documents in a paperless environment
  • We will also verify the approval of the document.
    – Documented approval of someone segregated from the accounting function helps support the purchase.
    – A check mark, initial or stamp may not be a strong verification of approval, but an electronic stamp with identification of the user will give high level of comfort that that invoice was approved.
  • Signing cheques alone does not give support for approval because there is no documentation that the invoice was reviewed.
    – Someone signing many cheques at once may not give the required attention necessary for proper approval.
GOING PAPERLESS
AGENDA

• What are the tax authorities interested in?
  – Keeping records
  – Specific requirements for electronic records
  – Filing returns
  – Tasks performed electronically
  – Correspondence

• What constitutes adequate documentation?
  – Comparison to paper documentation
  – Type of documentation
  – Format and retention period
  – Getting organized
WHAT ARE TAX AUTHORITIES INTERESTED IN?

Interest: That you keep and protect your records

From CRA’s website:

- The Canada Revenue Agency (CRA) accepts records that are **produced and kept** in:
  - paper format
  - paper format, and later converted to and stored in an accessible and readable electronic format
  - an accessible and readable electronic format

WHAT ARE TAX AUTHORITIES INTERESTED IN?

• Records produced in paper format
  – can be saved in an acceptable microfiche, microfilm, or electronic image formats

• Records produced in electronic format
  – have to be kept in an electronic readable format, even if you have paper printouts

WHAT ARE TAX AUTHORITIES INTERESTED IN?

From CRA’s website:

• When producing an image of a paper document, you must make sure:
  – it is an accurate reproduction with the intention of it taking the place of the paper document
  – the reproduction gives the same information as the paper document
  – the significant details of the reproduction are not obscured because of limitations in resolution, tonality, or hue.

WHAT ARE TAX AUTHORITIES INTERESTED IN?

Imaging

• Per Income Tax Information Circular IC78-10R5, an acceptable imaging program requires that:

  a. a person in authority within the organization has confirmed in writing that the program will be part of the usual and ordinary activity of the organization's business;

  b. systems and procedures are established and documented;

  c. a logbook is kept showing:

      • the date of the imaging;
      • the signatures of the persons authorizing and performing the imaging;
      • a description of the records imaged; and
      • whether source documents are destroyed or disposed of after imaging, and the date a source document was destroyed or disposed of;

Source: http://www.cra-arc.gc.ca/E/pub/tp/ic78-10r5/ic78-10r5-10e.html#P41_4821
WHAT ARE TAX AUTHORITIES INTERESTED IN?

- Per Income Tax Information Circular IC78-10R5, an acceptable imaging program requires that (continued):
  
  d. the imaging software maintains an index to permit the immediate location of any record, and the software inscribes the imaging date and the name of the person who does the imaging;

e. the images are of commercial quality and are legible and readable when displayed on a computer screen or reproduced on paper;

f. a system of inspection and quality control is established to ensure that c), d), and e) above are maintained; and

g. after reasonable notification, equipment in good working order is available to view, or where feasible, to reproduce a hard copy of the image.

Source: http://www.cra-arc.gc.ca/E/pub/tp/ic78-10r5/ic78-10r5-10e.html#P41_4821
WHAT ARE TAX AUTHORITIES INTERESTED IN?

• Additional requirements for electronic records

• You must make sure:
  – they are supported and maintained by a system capable of producing records that are accessible to CRA officials and readable by CRA software;
  – they are kept in an electronic format accessible to CRA officials and readable by CRA software, even if you have paper copies of them or if they have been transferred to another medium, such as microfilm or scanned image;
  – you always keep proper backup records and, preferably, store them at an off-site location in Canada;

WHAT ARE TAX AUTHORITIES INTERESTED IN?

- Additional requirements for electronic records
  - they are still kept in an electronic format accessible to CRA officials and readable by CRA software after any changes to your operating or electronic business systems;
  - they are ready, no matter where they are kept, to be inspected by the CRA;
  - if any records get lost, destroyed, or damaged, including because of a disaster, to tell the CRA by calling 1-800-959-5525, and you must recreate the files within a reasonable time frame;
  - if they are encrypted, they can be decrypted and produced in an electronic format accessible to CRA officials and readable by CRA software

WHAT ARE TAX AUTHORITIES INTERESTED IN?

• Filing returns:
  
  – Personal income tax returns (T1) and corporate income tax returns (T2) can be filed electronically
  
  – Registered Charity Information Return (T3010) is filed in paper
  
  – Non-Profit Organization (NPO) Information Return (T1044) is filed in paper

• Provincial equivalent (i.e. Quebec returns) are processed the same way
WHAT ARE TAX AUTHORITIES INTERESTED IN?

• Can perform some tasks electronically through the internet and/or through CRA’s website / My Business Account:

  – View and confirm information for your account
  – Change address
  – Access payroll and GST/HST accounts
  – Pay amounts (income tax, GST/HST, payroll tax, etc.)
WHAT ARE TAX AUTHORITIES INTERESTED IN?

• Correspondence with CRA
  – Information generally sent by mail
  – Some information available electronically
    • Notice of assessment
    • Copy of notifications sent by mail
  – For NPO’s, documentation and request for documentation is usually done by mail
  – CRA agents do not request information by email
WHAT CONSTITUTES ELECTRONIC DOCUMENTATION?
WHAT CONSTITUTES ELECTRONIC DOCUMENTATION?

• Requirements for adequate documentation are similar to paper documentation
  
  – Similar type and nature
  
  – Different format
WHAT CONSTITUTES ELECTRONIC DOCUMENTATION?

Type of documentation

• **Invoices**
  – Same requirement as paper
  – For GST/HST registrants, include name, business number, date, amounts, etc.

• **Charitable donation receipt**
  – Same requirement as paper
  – Include:
    • A statement that it is an official receipt for income tax purposes
    • Name and address of the charity
    • Charity’s registration number
    • Serial number of the receipt
    • Amount, etc.
WHAT CONSTITUTES ELECTRONIC DOCUMENTATION?

Type of documentation (continued)

- Bank statements
- Contracts and other agreements
- Financial statements and financial records
WHAT CONSTITUTES ELECTRONIC DOCUMENTATION?

• Format for electronic documentation
  – Accessible and readable format
  – Sending an email or document in Word and Excel vs. PDF
  – Accounting software backups

• Retention period
  – Same as paper
  – Period of six years from the end of the last tax year the records relate to
WHAT CONSTITUTES ELECTRONIC DOCUMENTATION?

• Getting organized
  – Use of specific Electronic Records Management Systems (ERMS)
    • Various systems for all types and budgets
  – Classification of information
    • By supplier, date, type, etc.
  – Keeping records on local computer or in the cloud
  – Using backups
CONCLUSION

• Getting on board with the paperless wave
  – Does the advantages outweigh the disadvantages

• Need to keep adequate controls
  – Protect from fraud
  – Help in audit efficiency

• Need to keep adequate records
  – Satisfy CRA requirements
  – Accessible and readable electronic format

• Getting organized
  – Finding the right fit for your organization
"The typical office worker uses about 10,000 sheets of copy paper each year – enough to cover a three- by six-foot desk more than 360 times. People rely heavily on paper to perform everyday duties, despite the high costs associated with lost documents, risk of document obsolescence and labor inefficiency. Paper is becoming a bottleneck for business processes and its excessive usage is also becoming a clear impediment for organizations that are embracing greener IT." (IBM)
GOING PAPERLESS