



**LOEWEN KRUSE**  
CHARTERED ACCOUNTANTS

**MinistryLift  
Seminar**

October 24, 2014

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**MinistryLift Seminar**

October 24, 2014  
Michael Loewen,  
CPA, CA



**LOEWEN KRUSE**  
CHARTERED ACCOUNTANTS

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**Loewen Kruse  
Chartered Accountants**

- Loewen Kruse specializes in charities and not-for-profit organizations
- We provide the following services:
  - Auditing
  - Accounting and Bookkeeping
  - T3010 E(13) preparation
  - Charities consulting



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3

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## Loewen Kruse Chartered Accountants

- Serving the Charitable Sector, including:
  - Intermediate/Long Term Care Organizations
  - Independent Schools & Post Secondary Institutions
  - Religious Organizations
  - Social & Assisted Living Organizations
  - Camps
  - Relief and Development Agencies
  - Youth Organizations

4



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## Agenda

- Accounting Update for NPOs
- Auditing Update
- Canada Revenue Agency Update
- Risk – What you should know to protect your charity

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## Accounting Update for NPOs – New Proposed Standards

- *Statement Of Principles* published in April 2013 by the Accounting Standards Board of Canada to make changes to the Not-For-Profit Accounting Standards
- Actual changes are still a few years away
- Little (no?) news from the AcSB in 2014.
  - The AcSB met in September 2014, and continued its consideration of written responses. No decisions were made.

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## Accounting Update for NPOs – New Proposed Standards

- These proposed changes apply to all NPOs (charities, societies, clubs, schools, unions, government)
- However, these changes pertain to AUDITED and REVIEWED financial statements *only*
- Comments deadline for the *Statement of Principles* was December 15, 2013
- Exposure Draft is (apparently) delayed (until 2015?)

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## Accounting Update for NPOs – New Proposed Standards

- Summary- Proposed changes:
  - Consolidation of controlled entities
  - Revenue Recognition (elimination of deferred contributions, and evaluation of whether a liability, or asset exists, when a contribution is made)
  - Income statement presentation by function, rather than object. (It would be prudent to start considering this change now...)
  - Small organizations to start capitalizing assets

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## Auditing Update

- No further announcements on any proposed changes to Canadian Auditing Standards, as per the Auditing and Assurance Standards Board of Canada – (Updated October 2014)
  - Exposure draft released by IAASB in 2013 regarding new auditor's report. No new news.
  - No news on new Review Engagement Report standards.

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## CRA Update

- Announced March 2014 – New electronic access to CRA coming, including electronic filing of the T3010, and other forms

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## CRA Update – Political Activities

- CRA has increased its attention on charities that have reported political activities on its T3010. The CRA asserts that they are using an “educate first” approach in responding to political activities reported on the T3010.

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## CRA Update – Political Activities (continued)

- Quick summary on political activities:
- Charities must focus its resources on charitable activities. Political activities can only be a minor focus, serving to support an organization’s charitable purpose
- Cannot spend more than 10% of total expenditures on political activities

12



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## Risk, and Your Organization

- What is Risk?
- Types of Risk
- Identifying and Managing Risk
- Managing Risk
- Monitoring Risk
- Reducing Financial Risk

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## What is Risk?

- **What does "risk" mean?**
  - Some consider "risk" as a threat
  - Some consider "risk" as an opportunity
- For this workshop, "risk" refers to threats and potential barriers to opportunities

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## What is Risk? (continued)

- **Definition of risk**
  - Risk is anything that affects an organization's ability to meet its objectives and preserve its reputation

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## Types of Risk

- **Compliance risk** - failure to remit payroll deductions, filing T3010 late, using restricted funds for unintended purposes
- **External risk** - Losing public support, failing to respond to economic or demographic trends
- **Financial risk** – fraud, financial failure
- **Governance risk** – risk of ineffective leadership or poor decision making, apathetic board

16



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## Types of Risk (continued)

- **Information Technology Risk** – IT used may not provide dependable service and accurate secure information, data loss, or data breach
- **Operational or Program Risk** – risk of poor service or delivery, day-to-day crises, and misuse of human or capital resources
- **Reputation Risk** – risk of losing goodwill, status in the community

17



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## Types of Risk (continued)

- Quick list or other risks:
  - Misconduct (sexual, behavioral) by an employee or volunteer (operational/reputational risk)
  - Inexperienced employees or volunteers (operational/reputational)
  - Poor internal controls (financial)
  - Poor weather during a large outside fundraiser (environmental)
  - School enrollment – increase or decrease

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## Identifying and Managing Risk

- There are usually too many risks for the Board to individually identify and manage
- Therefore, the Board may confine its oversight to ensure that risk management procedures are followed
- Therefore, the Board may strike up a Risk Management Committee

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## Identifying and Managing Risk (continued)

- Cost of Risk Management is far less than the cost of a major event
  - You can plan for it
  - It is cheaper
- The Board should be aware of , and understand the “major” risks of an organization

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## Identifying and Managing Risk (continued)

- **A well-balanced board** will include members from different disciplines, and experiences. These members will be able to identify certain specific risks, and provide recommendations to reduce these risks (“Stack” the board)
- Board meetings need to have regular training sessions
- **Recommendation:** Board Expertise and training

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**Identifying and Managing Risk  
(continued)**

- **Make sure the Board gets educated**
- The Executive Director usually sets the agenda for Director Meetings, but meeting agendas are ultimately the Chair's responsibility.
- Therefore, the Director should ensure that risk is addressed at Board meetings.

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**Identifying and Managing Risk  
(continued)**

- **The Board has overall responsibility to identify and manage risk**, but this task is usually delegated to the Executive Director.
- Therefore, it is important to ensure the E.D.'s job description establishes powers and limitations in the context of risk management (Executive Director limitations)

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**Identifying and Managing Risk  
(continued)**

- **How to Identify Risk**
  - Internal processes – interviews, questionnaires, brainstorming
  - SWOT analyses
  - External sources (comparison with other similar organizations, discussion with peers)
  - Audits (safety, environmental, financial audits)

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## Identifying and Managing Risk (continued)

- **How to Identify Risk (continued)**

- Risk Mapping: A visual Risk Matrix that shows the relationship between the impact of risk, and the likelihood of that risk occurring

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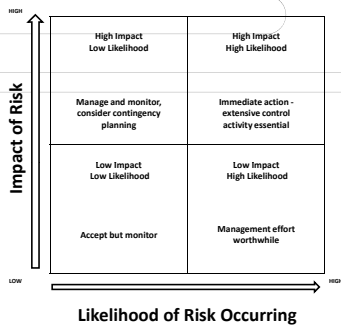
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## Identifying and Managing Risk (continued)

- **Risk Scoring**

- Use a scoring system that assigns a value to the potential frequency and severity of each risk (eg. 1 = least frequent or severe, and 5 = most frequent or severe)
- Multiply the scores, and identify those that are considered "major", and to be reported to the board

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## Identifying and Managing Risk (continued) - Code of Conduct

- If an organization has a **Code of Conduct** which is followed by all people in the organization, various risks are reduced
  - Fraud is reduced
  - Conflicts and other events that could harm the organization are reduced
- Recommendation: the Board approve a Code of Conduct, and lead by example

28



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## Managing Risk

- Four ways:
  - Avoid risk
  - Transfer risk
  - Mitigate risk
  - Accept risk

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## Managing Risk (continued) Avoiding Risk

- If it's too risky, don't do it
- However, people may be too risk averse, and forego legitimate opportunities
- Before abandoning an idea, weigh the risks against the rewards of the idea

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### Managing Risk (continued) Transferring Risk

- Insurance policies
- Foreign exchange or interest rate swaps

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### Managing Risk (continued) Mitigating risk

- Proper internal controls
- “checks and balances”

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### Managing Risk (continued) Accepting risk

- It may make sense to accept the risk, and monitor it.

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### Monitoring risk

- Keep a risk register
- Identify the risk
- Score the risk
- Describe how the risk is monitored
- Describe how the risk is to be reported
- Diarize when the last time the specific risk was evaluated by the Board

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### How does the Board know that the risks are legitimate?

- The Board looks to the Executive Director for guidance
- The Board should also arrange to meet and hear from a number of sources in addition to the E.D.
- This may be a sensitive area: the purpose here is to get a different perspective, not spy on the E.D.

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### Reduce Financial Risk

- Reducing financial risk usually involves strong internal controls
  - An financial statement audit does reduce financial risk, but does not provide an opinion on the efficiencies of internal controls

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## Reduce Financial Risk

### Alternatives to reduce financial risk:

- Consider a **non-audit report** on applying certain procedures on internal controls (less costly)
- Consider an **audit opinion on the effectiveness of internal controls** (more costly)

Source: Hugh Lindsay - 20 Questions Directors of Not-For-Profit Organizations Should Ask About Risk - © 2009 Canadian Institute of Chartered Accountants



37

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## Thank You for Attending!

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