

Accounting Matters

This is a Charity Central podcast. Charity Central provides information and resource material to registered charities in Canada to enhance their compliance with the *Income Tax Act*. For more information about Charity Central and to access resource materials, visit our website at www.charitycentral.ca

Introduction

[Interviewer: Lesley Conley, Coordinator of Information Services with Charity Central.]

I am very pleased to be here today with Jane Halford. Jane is the Chief Executive Officer of the Institute of Chartered Accountants of Alberta. Today's interview will cover general accounting terminologies, why registered charities may want to consider using an accountant and other general issues. We will also be talking a bit about what a charity should be looking for in an accountant, and key questions they should be asking prior to hiring.

Welcome Jane and thank you very much for taking the time to be here today.

Jane: Thank you very much for having me, I really appreciate the opportunity.

Registered charities must report to CRA annually by completing a T3010 return. As a majority of the information required on the form is financial, keeping proper books and records in accordance with legal requirements, accounting principle and standards, is key to ensuring accuracy of numbers. I think I would be safe in saying that keeping proper financial records is one of the most important responsibilities of a registered charity, as the information provided on the T3010 form, form the basis for any review CRA may undertake with a registered charity.

Jane, why don't we just get started with a few very general questions.

Jane: Sounds great.

What are the different accounting designations in Alberta?

There are three professional accounting designations recognized by the Alberta government. They are: Chartered Accountants, Certified Management Accountants and Certified General Accountants. Each of these are represented by a professional regulatory body. And each of the members, of these bodies must meet a minimum education, examination and experience requirement to carry the designation. All members have to maintain a minimum professional education and code of conduct throughout their career.

Can all professional accounting designations work with non-profit organizations or registered charities?

In Alberta, all professional accountants can choose to provide accounting and other services to any kind of organization. They can provide audit services, accounting services, tax and consulting. But in order to provide audit services the CA, CMA, or CGA has to register with their accounting body as a public accounting firm. But providing any other kind of services can be done through either by paid or volunteer positions.

What can a professional accountant help a registered charity with?

Accountants can help with a number of services for a registered charity. Most often in its accounting, tax, and performing an audit. A lot of times an accountant is asked to perform the book keeping for the organization, which means helping the charity record its transactions. Sometimes accountants are also asked to provide assistance on setting up an accounting system and helping the charity develop reporting and financial statements for either their funders or for their boards. Accountants also help with other things such as budgeting, financial management, business planning, strategic planning and of course looking at the investments of the organization. Sometimes accountants are also asked to help organizations apply to CRA to become a registered charity or to help with other such as tax planning.

Is there a difference between financial reports and financial statements?

There is. Financial reports are pretty broad. They're the pieces of information that either board or management uses in its decision-making processes. So they can be things like budgets, program cost, financial forecast, cash flow statements. Financial statements are actually a defined term that provides a snapshot of the organization at a given point in time. So they're usually prepared either monthly, quarterly or annually.

Is a balance sheet, cash flow statement, statement of revenue or revenue and expense considered a financial statement?

All of those make up the financial statement of the organization.

What exactly is the financial audit by a professional accountant?

There are three kinds of engagement that a professional accountants do, an audit, review and a compilation.

Can you give us a brief description of each?

Certainly. The purpose of an audit is for the accountant to communicate to the reader that the financial statements are presented fairly, and in accordance with generally accepted accounting principles. And those are Canadian wide terms that state how a financial report needs to be prepared. In an audit, the accountant performs specific procedures to assess the quality of the financial information provided before expressing their opinion.

A review on the other hand is more of an analysis of the information of financial statements. It's also prepared in accordance with the Canadian standards but it really doesn't have the same assurance as an audit. It basically allows the accountant to communicate that the information is plausible.

The other kind of engagement is compilation, in which the accountant expresses no opinion or no assurance. They basically compile the information the client has given them, in a form of a financial statement. But it's important to note that the accountant's only concern with the situation that the information is assembled correctly and the numbers and total are correct.

What is the cost difference between a compilation and an audit? Is one less expensive than the other?

Certainly, a compilation is the least expensive, and an audit is the most expensive. But before making a decision organizations should clearly understand the tradeoffs between costs and the level of assurance that they require.

When would a charity have an audit?

Necessity of an audit depends on the structure of the organization. For example, a society incorporated under its *Societies Act* is required by law to have an annual audit. This may need to be prepared by an external monitor, or by somebody within the organization in accordance with the Societies Act regulation. Usually charities require an annual audit in their bylaws. But sometimes funders also ask for annual audit in order to release the funds.

I should clarify that the audit that I spoke of, was a financial statement audit. In rare cases the Canada Revenue Agency or CRA will also want to perform an audit. This is a completely different process, and it is performed by the Canada Revenue Agency staff. Sometimes charities wonder why they have been selected for a CRA audit. It depends on the situation but often they're selected because it's a random selection. CRA is reviewing specific legal obligations under their Act, they're following up on potential non-compliance or complaints or to confirm that the assets have been distributed after a revocation.

Regardless of whether the charity chooses to do an audit review or compilation engagement, can any designated accountants perform all of these types?

CA's, CMA's and CGA's all have the ability to perform audit reviews and compilations. However, any member of those bodies who want to do so have to register with their professional accounting body and have to call themselves a public accounting firm. The reason that we do this is to make sure that those firms meet the specific standards for those types of engagements. They carry professional liability assurance and the profession also makes sure that they're performing their duties within the requirements of the profession.

Does a registered charity need to have a financial audit done every year?

The Canada Revenue Agency does not require a registered charity to have an annual audit. But the charity may be required to do so under provincial law, under their bylaws, or by request of their funders. For example, an Alberta Registered Charity is required to have an annual audit. This audit can be done by a professional accountant or by members of the society. If the organization chooses to meet their bylaws requirements by having an internal member of the organization perform the audit, a CA, CMA or CGA cannot participate in the activity, because it would require them to register with their professional body. The benefit of having an audit performed by a professional accountant is that they're trained to perform audits, they're independent from the organization, and they can also offer suggestions to improve internal controls.

What should a registered charity be looking for in an accountant?

The most important thing to look for is whether or not the accountant has an experience that's similar to your type of charity. Either the type of work the charity is doing, or the size of the charity, or how many different locations or atlases a charity might have. It's also that it's somebody that you feel conformable with that you can speak freely of. But my best suggestion is that you clarify the role you're asking the accountant to perform. For example, ask yourself the question is the role voluntary or paid, and if it's paid make sure you discuss what fees are associated with the work that you're requesting.

If a charity's budget is small, and they do not have funds to hire an accountant, no one in the organization knows anything about accounting or filling in tax forms. How can they find out if there is an accountant or professional willing to volunteer time to assist them?

This is a very common situation. One of the options is to call the accounting bodies, the CA, CMA or CGA, and ask whether or not they keep a list of volunteers that are willing to assist registered charities. Another idea is to ask your network, staff, or your volunteers, or your donors to see if they know of any accountants who'd be willing to give time back to the organization. There is always somebody that knows an accountant that would be willing to help.

Thank you Jane, very much for taking the time to answer our questions and to give us some very insightful information. We appreciate you being here.

Jane: You're very welcome.

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