



Accountability Handbook



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Developed by: San San Sy

Reviewed by: Laird Hunter, LLB and Peter Broder, LLB

Edited by: Margaret Sadler

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www.charitycentral.ca/docs/handbook-en.pdf



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Introduction

This handbook introduces you to the concept of accountability in the context of charities:

- the scope of accountability
- externally imposed accountability and transparency
- internally imposed accountability and transparency standards and practices
- the tools available to move charities toward being more accountable.

Accountability and transparency cover a vast area. We cannot describe them thoroughly in one small handbook. We hope that the board of your charity will use this handbook

- to introduce ideas about accountability
- to develop policies and implement procedures to enable your charity to be more accountable, and
- as a tool to improve your accountability and transparency performance.

With accountable and transparent practices that are communicated to the public, your charity will increase its credibility and enhance its role in providing public benefits.

It is not the intention of this handbook to provide all the best practices and recommended processes, but rather to alert you to the issues, share some good practices, and show you the pathway to learning more about it and about the tools that can help you in developing good practices for your charity.



Although this handbook is written mainly for registered charities, that is, non-profit organizations that have applied and been approved by the Canada Revenue Agency and that have a charitable registration number, most of the contents are applicable to all non-profit organizations.

While this handbook provides background information, in order to apply it to your charity, you may want to consider using the Road to Accountability Self-Diagnostics Pack developed by Charity Central. This self-diagnostics pack will assist you in assessing your organization's accountability and transparency practices and in developing an action plan to further develop good practices. You may download the complete pack from the Charity Central website at www.charitycentral.ca/docs/selfdiag-en.pdf. We recommend that you complete it at a board meeting and use this handbook as a reference for more information.

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What is accountability?

Today's use of the word "accountability" often puts us in mind of finances, but recall the broader definition of "being required or expected to justify actions or decisions or be responsible" (Oxford Online Dictionary). Scholars and practitioners in the charitable and non-profit sector include this wider definition. Accountability, they say, is the process of holding an organization responsible for its actions so that it reports honestly and openly to authorities such as governments and funders. "Answerable to a higher authority" is a common understanding by charities of accountability. Even so, this is still a narrow interpretation. It deals primarily with the mechanism of oversight, supervision, and reporting to a higher authority.

Accountability also has an internal dimension: that of taking responsibility to be true to the

purpose or object of the organization (usually most familiar from the mission statement) to its staff and stakeholders. In *Managing for Accountability*, Kearns (1999) takes this larger view that “accountability refers to a wide spectrum of public expectations dealing with organizational performance, responsiveness and even morality ... these expectations often include implicit performance criteria related to obligations and responsibilities that are subjectively interpreted and sometimes even contradictory.”

This handbook considers accountability as

- the responsibility to comply with legal requirements and requirements of your funders and other stakeholders
- staying on course with your organization’s purpose
- being faithful to its values
- delivering good programs and activities with performance measures
- having good management practices.

Many people assume accountability is synonymous with legal liability. A charity, its board, and its individual directors can each face potential legal liability – in the form of a claim for financial or other compensation made through the courts – but the circumstances in which that is apt to happen are usually limited. In most cases, the risk of such claims can be addressed adequately through insurance coverage, risk management, and sensible decision-making.

As well, some charities may view compliance and regulatory enforcement as the reason for accountability. Taking this limited view puts the responsibility on the “enforcer” and ignores self-responsibility as an important base of accountability. Currently, much discussion on accountability and justification of actions or non-actions includes financial matters as a means to maintain credibility and public trust. But as noted, accountability is not limited to financial accountability.

Often under-estimated are the consequences other than the legal or regulatory results of

not being accountable. These consequences can range from separation from stakeholders or internal division and conflicts over control of the charity to individuals associated with the organization not being permitted to serve as directors of other charities.

Being accountable while not managing affairs in an easily observable and understood manner does not create trust and credibility. Transparency requires that information and decision-making processes and procedures be clearly stated, not hidden.

So, why be accountable and transparent?

To accomplish the purpose for which your charitable organization was created, you quite likely need funds. To raise funds from agencies and donors, you need their confidence. To gain their confidence, you need to be both transparent in what you do and at all times responsible for your actions, while being true to yourself.



Accountability is multi-dimensional and multi-layered. A charity is accountable to different stakeholders for a variety of activities and outcomes using different means. The challenge for your charity is to be able to respond and to balance the needs of your different stakeholders.

“Accountability is the requirement to explain and accept responsibility for carrying out an

assigned mandate in light of agreed upon expectations. It is particularly important in situations that involve public trust” (Panel on Accountability and Governance in the Voluntary Sector 1999). This panel emphasized that accountability should not be thought of only in terms of answering to external audiences. It should also be thought of as a constructive tool for organizational development, enhancing management practices, self-evaluation, and strategic planning. By doing so, stakeholder confidence will grow and public trust will be enhanced.

The non-profit organizations that participated in the development of *The Benchmarks of Excellence for the Voluntary Sector* (Mollenhauer 2000) identified one of the benchmarks of full accountability as “commitment to transparency”. The areas for you to be transparent in are your organization’s financial and fundraising management, program outcome measurements, and governance.

Being committed to transparency implies being both proactive and reactive.

- Being proactive in transparency involves communicating with stakeholders on a regular basis.
- Being reactive means responding quickly to inquiries.

Who are you accountable to?

Mapping your stakeholders

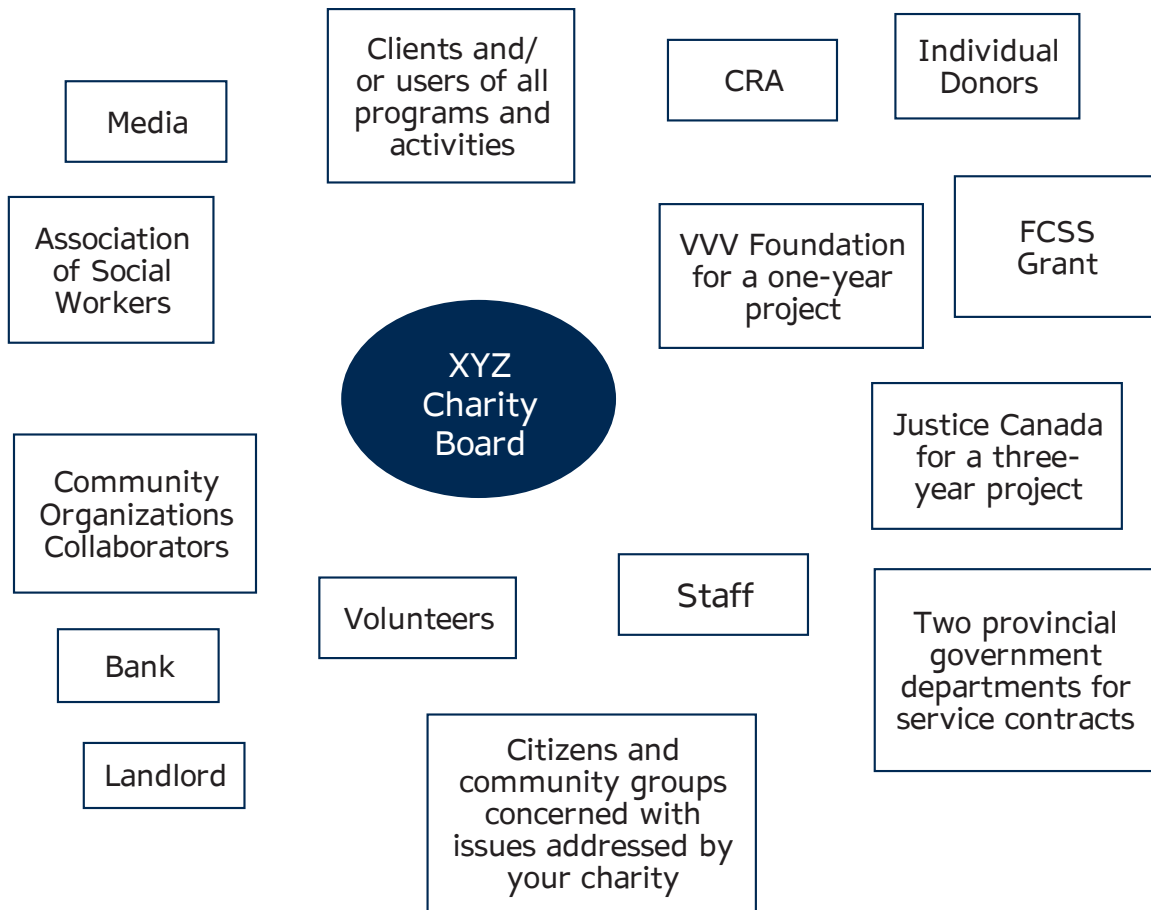
Obviously, different charities have different stakeholders. In general, your stakeholders likely include government, funders, donors, collaborators, professional organizations, members, clients or beneficiaries, staff, and volunteers.



Take a few minutes to map out your stakeholders and their relationship to your charity. In creating a map of your stakeholders, try to involve not only board members, but also staff and volunteers.

Your “map” doesn’t need to be a graphic representation. If you choose to list your stakeholders, it’s best to group them, for example, listing all the funders in one group.

Here is an example.



Once you have mapped out your stakeholders, list what your organization has to do to show your accountability to each group of individual stakeholders.

For example:

Stakeholders	Requirements and/or good practices	Communication
Justice Canada (Funder)	Project's financial reports Project's descriptive reports	As stated in the agreement Send regular general updates
Canada Revenue Agency	Follow receipting, books and records, and fundraising requirements Maintain proper financial records File T3010 annually	Obtain approval from CRA before making fundamental changes to constitution, bylaws or other major changes to organizational structure or to the scope of the organization's activities
Staff	Human resource policies and procedures, which include compensation, benefits, conflict resolution, and related issues. Annual performance appraisal (minimum)	Regular staff meetings and programs and/or project updates Staff retreats
Volunteers	Role descriptions and policies relating to volunteers	Volunteer appreciation Periodic meetings with volunteers



This is a good group exercise for your board as a whole. The board could also assign a small group of directors to develop a draft for the whole board to review and validate.

Who is accountable for a registered charity?

If you're on the board, **you are!** A director of the board is part of the group that governs the charity and has the overall responsibility for the organization, its strategic direction and management.

Ultimately, your board is accountable for the organization. While there are levels of accountability, the board is responsible for the oversight of the charity and is accountable to all stakeholders. Even if responsibilities are delegated, the board is still responsible and accountable. This is why it is so important for the board to understand and implement accountability practices and to be as transparent as possible.

Why is the board of directors ultimately responsible?

The board of directors of a non-profit organization including a registered charity is the “fiduciary” of the charity. A fiduciary has a legal duty to act on behalf of someone else – in your case, on behalf of your members and those you have chosen to serve. Your board of directors owes both members and clients fairness, honesty, belief, and freedom from bias. To accomplish this, the board must practice the highest standards in managing the organization’s property and the services the group provides. In this regard, directors’ fiduciary duties are imposed by law.

Fiduciary duties involve several aspects:

- directors are required to conduct themselves with a degree of care. This is often referred to as the **standard of care**. The exact standard depends on the federal or provincial corporate law that applies and the type of assets being dealt with.

- directors do not have to be experts, but they must meet the standard appropriate in the circumstances in terms of their competence (or skill), diligence, and loyalty. This is known as the **duty of care**. Generally, directors must
 - act competently or skillfully – take actions or make decisions that are reasonable and show a certain degree of carefulness
 - act diligently – take actions or make decisions based on a sound and full knowledge of the matter at hand, exercise adequate and on-going oversight over the affairs of the organization, and not delegate their role as directors, and
 - act loyally – take actions or make decisions honestly and in good faith and in the best interests of the organization, treat the affairs and deliberations of the organization with confidentiality where appropriate, and avoid conflicts of interest.

As fiduciaries, directors are accountable to the charity's missions or objects, to the charity itself, and to its stakeholders.



In this handbook, a charity's overall accountability and transparency issues are directed to the board of directors. This is not to say that the executive director and other staff members are not accountable for their actions and practices. A charity's executive director, to whom the board has delegated many responsibilities, is accountable to the board. Other staff members are accountable to the executive director or to their supervisor and to the people they serve.

What are you accountable for?

This handbook uses the popular view of accountability, that is, that accountability includes obligations and responsibility to all stakeholders and not just to those in the chain of command.

The Panel on Accountability and Governance in the Voluntary Sector (1999) stated that, at a minimum, voluntary organizations including charities are accountable for:

- an appropriate **mission**, policy priority, or both, and ensuring its relevance
- sound **management of funds** received from donors and governments and their expenditure
- effective organization **governance** (including structures and process for managing human resources)

- **outcomes**, including quality and range of programs and services.

Alnoor Ebrahim in *The Many Faces of Nonprofit Accountability* comments that these areas of accountability are not mutually exclusive but need to be combined in various ways.

This handbook uses these four areas as our basis for discussion in the coming pages.

In ensuring that accountability practices are in order, charities and non-profit organizations have to consider both

- externally imposed or **external requirements** such as legal and funders' requirements and
- internally imposed practice or **self-regulated standards** to be a better quality and effective organization.



Being accountable and being transparent go hand in hand. Good accountability practices are most effective when they are accompanied by good transparency practices that are accessible and communicated in a timely, understandable, and factual manner to stakeholders.

Many excellent resources are available to support you in learning more about accountability and how it applies to your circumstances.



- Organizations such as Imagine Canada in its *Ethical Code* handbook set standards for charities in fundraising and financial reporting practices.
- The Canadian Council of Christian Charities in its certified membership application lists standards for areas of accountability.
- Both the Maryland Association of Nonprofit Organizations and the Minnesota Council of Nonprofits describe areas of accountability in their *Standards for Excellence* and *Principles and Practices for Nonprofit Excellence*.

Externally required

Both registered charities and non-profit organizations must comply with certain requirements under the *Income Tax Act*.

Each province also has laws that focus on the legal structure, fundraising, and operations of charitable organizations (including those formed as trusts or holding trust assets). In some cases, registered charities or non-profit organizations may be constituted under federal legislation or subject to other federal laws.

The charitable sector is very diverse and the associated legal requirements for each entity vary. You need to know what laws affect the work you do. It is not possible for this handbook to identify all areas of legislation that you should be aware of. Here are some common areas to get you started.

Legal requirements for registered charities only

- Legal requirements for all non-profits as stated on page xx
- Legal requirements under the *Income Tax Act*
 - annual reporting
 - compliance obligations with respect to issuing donation receipts
 - maintaining books and records
 - devoting all the entity's resources to charitable work (aspects of the charity's operations not directly related to undertaking charitable work, such as fundraising, administration and management, and political activities must meet certain criteria to be permissible)



For more information, download a copy of the brochure *Your Registered Charity and Tax Law* at www.charitycentral.ca/docs/brochure_en_web.pdf or email info@charitycentral.ca for a print copy.

See also the CRA's Resource Manual on what is necessary to maintain registered charity status at www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/tlbx/rsrclmnl-eng.html

Legal requirements for all non-profit organizations

- Federal goods and services tax, harmonized sales tax, and/or provincial sales taxes
- Business registration
- Source deduction of payroll taxes, as well as filing and reporting requirements related to Employment Insurance, Canada or Quebec Pension Plan, workers' compensation, and other provincial levies



Visit the CRA website at
www.cra-arc.gc.ca/chrts-gvng/chrts/fdrl-eng.html

- Provincial legislation, typically relating to maintaining the legal status of the entity (may also be federal) and fundraising



The CRA website lists the contact for each provincial government mainly in the area of legal structuring and fundraising.
Visit www.cra-arc.gc.ca/chrts-gvng/chrts/prvnsc/menu-eng.html

- Payroll and other payment for services due to employees and other service providers (Sec. 146, SC2009, C23 *Canada Not for Profit Corporation Act*) and other provincial legislation such as the *Ontario Corporations Act* and the *Alberta Companies Act*.
- With reference to the operations of the entities, groups with employees should be aware of the provincial laws relating to employment and, where applicable, other areas such as human rights and privacy legislation.



See Tipsheet on Privacy Policy Checklist (www.charitycentral.ca/docs/privacy-en.pdf) for more information. See also www.charitycentral.ca/node/402 for FAQs on privacy legislation.

- Legal Rights and Obligations of Directors *The Primer for Directors of Not-For Profit Corporations: Rights, Duties and Practices* published by Industry Canada (2002) provides directors with a good understanding of their legal rights and obligations.



The Primer is available for download at [www.ic.gc.ca/eic/site/cilp-pdci.nsf/vwapj/Primer_en.pdf/\\$FILE/Primer_en.pdf](http://www.ic.gc.ca/eic/site/cilp-pdci.nsf/vwapj/Primer_en.pdf/$FILE/Primer_en.pdf)

Requirements imposed by funders

Different funders have different requirements, but some general items include:

- specific requirements relating to the funded projects and activities
- financial and descriptive reporting
- outcome measurements

Self-regulated standards

All levels of government regulate and impose conditions on a charity's operations through legislation, but many conditions of your operations will also be self-imposed. Consider the situation of hiring staff. Yes, you must follow human rights and employment laws, but these laws leave room for you to develop and practice your own way of human resource management.

These practices although not required or imposed by stakeholders are basic to your

operations. Establishing and following your own standards will ensure that the organization is self-accountable. These practices fall into the categories of

- management practices such as financial controls that enable the organization to fulfill its stated external requirements and good donor stewardship
- practices that are true to the ethics and values of the organization such as human resources practices for staff and volunteers
- transparency practices that enhance credibility and public trust

The chart on page 24 is based on the Road to Accountability Self-Diagnostics Pack available at www.charitycentral.ca/docs/selfdiag-en.pdf. It lists a set of minimum accountability practices based on external and self-imposed requirements. This provides a starting point for self-regulated accountability practices.

Accountability practices	Externally required	Self-imposed
Review of purposes/objects	X	
Current strategic plan	X	
Program evaluation	X	
Consultation with stakeholders		X
Political activities (RC)*	X	
Board members at arm's-length	X	
Board members at arm's-length with senior staff		X
Conflict of interest policy		X
Governance model		X
Description of roles of board members		X
Defined line of authority between board and executive staff		X
Annual bylaws review		X
Written policies		X
Board develops or approves annual budget	X	
Financial policies and practices		X
Review of executive staff compensation		X
Policy on reimbursement of expenses for board and staff	X	X
Procedure to follow CRA reporting requirements (RC)	X	
Fundraising revenues-to-expenses ratio (RC)	X	
Board's familiarity with T3010 (RC)	X	
Board's ability to speak to the accuracy of T3010 (RC)	X	
List of provincial legal requirements	X	
Knowledge of privacy laws	X	
List of requirements to maintain registered charity status (RC)	X	
Procedure to follow provincial fundraising requirements	X	
Accuracy of fundraising materials	X	
Report to donors on funds spent		X
Respecting donors' privacy wishes	X	
A way for donors to opt out of mailing lists		X
Availability of financial information on fundraising		X

* denotes Registered Charity

Familiarity with the CRA's Fundraising Guidance (RC)	X	
Code of ethical conduct		X
Policies and procedures to handle complaints		X
Sharing information with the public about board members and key staff		X
Sharing information with the public about your purposes, programs, services, and their impact		X
Sharing financial information with the public		X

* denotes Registered Charity

What are you accountable for?

(1) Mission and/or object

Your objects or purposes guide your charity's activities. You may have stated one or more objects. When you applied for charitable registration with CRA, you stated your charitable objects with corresponding activities to further each object. This is the basis for your registration as a charity. If you are not registered with the CRA, you still stated your purposes or objects when you became a legal organization. Being a charity or a non-profit gives you tax-exemption because you are entrusted to do public good. You are accountable to the Canada Revenue Agency and other stakeholders for your objects.



Your stated objects must be your guiding star.

Your programs and activities are the means to achieve your objects. If you are not true to your objects, then the programs and services that you are doing are not relevant since they do not move you towards your object.

Often staff, volunteers, or other stakeholders are aware of their organization's mission, but not of the objects or purposes stated in the organization's legal filings. An organization's mission statement should reflect its objects or purposes. It may be phrased in a way that is more accessible to the public and stakeholders, but it should accord with what the organization is legally constituted to do.

Sometimes, however, the mission statement is drafted without proper attention to the legal objects or purposes. During strategy retreats or other planning sessions, your board may have revisited your mission without reviewing the constitutional documents under which your group operates. Where the substance of the mission statement differs from the

objects or purposes, the mission statement should be changed to be in keeping with the legal documents. In assessing whether an organization is acting within its mandate, the legal filings always determine what an organization ought to be doing, and whether the activities it undertakes advance that work.

Making a change

In general, you need authority from members to change your purposes. The exact requirements will vary depending on how your organization was formed legally. Your organization's governing documents, such as your bylaws, may specify the process to follow.

The laws under which your group is constituted will determine if there are further considerations, such as filing requirements, which need to be satisfied to implement a change. For example, if your organization is a society in Alberta, you have to file a change with Service Alberta.

In the case of registered charities, changes in your charitable object must be approved

by the CRA. If your object has changed or you are considering a change from what was originally submitted, you have to discuss this with the CRA to make sure that the new object is still charitable and to be informed of the procedure to follow. Depending on the extent of the change, you may need to make a written submission.



For instructions on changing objects, go to www.cra-arc.gc.ca/chrts-gvng/chrts/prtng/chngs/prps-eng.html.

Staying focused

Your ongoing programs and services were established to achieve your purposes. As you continue to provide them, you may see other needs of your clients. In the spirit of helping, you may be tempted to offer the much-needed services. To stay focused, however, you need to review and assess whether the new program or service will further your purposes.

An annual review or affirmation of the objects and mission keeps the board focused. It is a good idea to do this as part of an annual planning activity.

It is very important that your mission be communicated clearly to all your stakeholders. It may appear in different formats and different contexts. There is nothing worse than your stakeholders not knowing that you exist.

Being accountable to your mission

Key indicators include:

- Mission reflects your legal objects or purposes
- Mission is clearly stated in your promotional materials
- Board members can clearly state your mission
- Staff and volunteers can clearly state your mission
- Your strategic plan is guided by your mission
- There is a record of the annual review of the mission by the board
- There is a schedule for gathering input from all stakeholders including the public as to the relevance of the mission



- Collect all your governing documents (bylaws, incorporation documents, trusts), annual reports, and promotional materials.
- Review the documents to see if they state the mission, objects, and/or purposes of your charity. Where there is a reference to the group's mandate, it may not be in its original wording, but the intent has to be consistent with legal and other documentation.
- State the mission at the beginning of a board meeting.
- State the mission at a staff meeting.
- Include a brief discussion of the mission with volunteers.

Programs and activities

Having a mission without programs and activities to carry it out is like having a building plan stored on a computer but no physical building. To further a mission, the charity needs first to engage in a strategic planning process that results in a written strategic plan.

"A **strategic plan** is a tool that provides guidance in fulfilling a mission with maximum efficiency and impact. If it is to be effective and useful, it should articulate specific goals and describe the action steps and resources needed to accomplish them. As a rule, most strategic plans should be reviewed and revamped every three to five years." (Mittenthal 2002)

A strategic plan is developed through a planning process. It addresses three key questions:

- "What do we do?"
- "For whom do we do it?"
- "How do we excel?"

It is very important to involve the right people in the strategic planning process as described in Mittenthal's *Ten Keys* (2002).

A strategic plan usually has these elements:

- Mission, vision, values statements
- Goals and strategies based on a situational analysis, such as a strengths, weaknesses, opportunities, and threats (SWOT) analysis
- Plan of action for each strategy
- Monitoring and evaluation plan

The SWOT analysis is a business analysis technique commonly used in strategic planning. Using this analysis helps the organization determine where it is at and where it wants to go, taking into consideration the outside environment.

While a strategic plan may take a three- to five-year view, the environment is likely to change during this time. Thus, it is necessary to state how you will monitor and update the plan.

What are you accountable for?

(2) Financial management

Media stories often cover the issue of financial accountability and charities. Finances speak loudly to many stakeholders, especially the public. The article “The Charity 100: Where is your money going?” in *MoneySense* (June 2010) rates Canadian charities to assist donors in making their decisions. It reflects what the public is asking of charities in accounting for their finances. The purpose of charities is to provide public benefit as stated in their mission or object. How are you doing?

A charity is required by the CRA to use most all of its resources (financial and other) on charitable activities. Financial accountability is about the proper management of funds to ensure that the funds are used mainly in activities that further the objects of the charity and in accordance with the agreement with funders and donors. This includes having check and balance controls in the receipt and disbursement of funds, keeping records with proper documentation, and following generally accepted accounting standards.



The board is responsible for the finances of the charity.

No matter the size of the charity, the board needs to have financial policies and procedures in place. Records can then be organized and kept using accepted accounting standards either manually or with accounting software.

Establishing written policies and procedures safeguards against future problems and is a part of risk management. Some basic financial policies and procedures may include:

- Financial reporting
 - to the board
 - to the funders
 - to the CRA including the authorization of individuals responsible for maintaining proper receipting practices
- Budget – when it will be done, who will prepare, who and how to approve, how to monitor
- Banking – which bank and who approves
 - Signing authority – which two to sign.
 - No signing of blank cheques
- Cash management – both receipts and disbursements; who has access, how often will it be reconciled and reported. If there is petty cash, a limit has to be set and reconciliation prepared with documentation and approved before it can be replenished.
- Record keeping – who to keep and how to keep, who has access to the record



See Appendix A for the books and records retention requirement for registered charities.

- Spending limits and authorization
- Money management policy – both borrowing and investing of unused funds
- Credit card and debit card
- Payroll and withholding deductions; GST payment to the CRA
- Financial review and/or audit

These policies and procedures have to be understood by the board, the board finance committee, the executive director, and the financial staff person. They have to be followed strictly. Any deviation has to be recorded and reported to the board.

On a regular basis, usually annually, a financial report is made available to the public as part of the charity's annual report. In its annual return (T3010) to the CRA, the charity is required to submit its financial statements. The registered charity's T3010 is accessible to the public on the CRA website.

When questions are asked, the charity has to be able to explain its procedures and provide documentation if required without contravening privacy legislation.

Key indicators of financial accountability

- Bank statements are reconciled monthly
- Treasurer's report is presented to the board monthly
- Financial report are submitted to the funders as required
- An independent person audits the finances; for registered charities with an annual revenue of \$250,000 and over, the financial statements are professionally audited as recommended by CRA
- Annual expenses for registered charities are primarily devoted to charitable activities
- Revenues and expenses are recorded so that they can be aggregated as required on the charity's Annual Return (T3010) to the CRA
- The ratio of fundraising revenues and expenses is not over 35 per cent, under normal circumstances as suggested by CRA



- Resources for Accountability and Financial Management in the Voluntary Sector www.vsi-isbc.org/eng/funding/financial_guide/index.cfm
- Appendix B: Financial Reporting and Registered Charities FAQs. This is also available at www.charitycentral.ca/docs/financialkit-en.pdf

What are you accountable for?

(3) Governance

How the charity governs at all levels reflects its organizational values and culture and is the basis of organizational accountability and effectiveness. Governance refers to how the charity is managed by the board to further its mission. This includes establishing and running the structure and ensuring financial viability with proper financial and management controls. Good governance is ultimately about ensuring the effectiveness, viability, and credibility of the charity.

The board is the steward of the charity. It has the responsibility of overseeing the charity's organizational governance and related duties. As discussed, the board of directors is the fiduciary of the charity and has legal responsibilities.

The board may operate in different ways or use a combination of governance models. Whichever model the board adopts, it has to be clear in communicating this to board members, staff, and stakeholders. In general, boards can employ one of two governance models, or a mixed model:

- **Policy governance model** – the board is mainly involved with planning the overall direction of the organization and in developing major policies; the board hires and supervises the senior staff of the charity (the executive director or chief executive officer) while the responsibilities of day-to-day operations and the implementation of the policies are delegated to the staff.
- **Working or administrative governance model** – the board is responsible for both policies and day-to-day operations. This kind of board usually runs small organizations with few or no staff. If it has minimal staff, the board may have some operational responsibilities.
- **Mixed governance model** – the board uses a mixture of a policy governance model and an administrative governance model. With this model, it is essential that each board member understands when and how each of the two models is used.

As a charity evolves, the governance practices of the board may change, for example, when a charity evolves from no staff to having a number of staff handling the administrative and programming activities. If change is needed, a board should compare its present practices to previous practices and identify its current governance style. Once determined, this should be communicated clearly to all board members, staff, and stakeholders.

Your board has the responsibility of overseeing the charity no matter which governance model is used. To do so, it needs to have structures and systems in place. Structures mean both board and management structures.

For the board structure, the general practice is to have, at the minimum, three basic elements:

- a board that can provide objective oversight
- a nominating committee
- an audit committee to review implementation of management, financial, and information control systems to ensure that legal requirements are complied with

The board needs to have clear lines of responsibility and authority. Each committee needs to have its role description and reporting requirements. Equally so in the management structure, depending on the governance model chosen, a clear line of authority has to be established and communicated.



There are many publications on board governance. For starters, Mentoring Canada has training modules on “The Fundamentals of Effective Board Involvement” at www.mentoringcanada.ca/training/Boards/index.html.

What are you accountable for?

(4) Outcomes

Accountability is all about doing good in a good way. While a charity can have the best policies, procedures, and systems in governance and management, such as human resources and financial management, in the end, the stakeholders want to know if the charity is doing what it says it is going to do in its mission and doing it in a responsible way.

So how can the charity show this? It can be done through the assessment of outcomes, that is, by indicating what the charity intended to do and whether it got it done. There is increasing demand from funders and interested public for such an assessment, often called outcome evaluation or results-based evaluation. There are many models, such as the Logic Model, Balanced Scorecard, Social Auditing, and Benchmarking.

Results-based evaluation measures the outcomes of a program or activity. That is, it measures the impact, effects, and benefits of the program to the participants, rather than just

comparing inputs (the amount of resources that went into the program) and outputs (generally, the number of participants).

All types of outcome or results-based evaluation have these elements:

- identifying outcome goals
- choosing indicators
- identifying ways to measure these outcome goals
- collecting and analyzing the data
- communicating the results to stakeholders

Many funders, including the United Way and the Government of Canada, use this kind of performance framework as reflected in the Logic Model or a variation thereof in their grant application and evaluation. The Logic Model describes the desired outcomes, what resources were used, what was done and to whom to accomplish the outcomes.

The Logic Model – A Sample Outline

Inputs	Outputs	Outputs	Outcomes	Outcomes	Outcomes
resources used such as money, time people, facilities	What you do, e.g. activities or services.	Who you serve, e.g. participants including numbers	short-term	intermediate	long-term

Benefits of outcome evaluation

- It measures the intended outcome or benefits to the participants during and after the program.
- The results inform the charity about future enhancement; it is a valuable planning tool.
- It is an accountability tool, as it shows how well the charity is doing the public good that it set out to do.

Barriers to conducting outcome evaluation

- time consuming
- can be costly
- can be difficult to measure long-term effect without sustainable funding
- may be difficult to get users' full consent (privacy issues)
- requires buy-in from all levels of the organization
- lack of expertise



- “What is Outcome-Based Evaluation?”
www.managementhelp.org/evaluation/outcomes.htm#anchor153409
- “The Logic Model for Program Planning and Evaluation”
<http://www.uiweb.uidaho.edu/extension/LogicModel.pdf>
- *Key Steps in Outcome Management*
www.urban.org/UploadedPDF/310776_KeySteps.pdf
- *Outcomes Framework Browser* with samples of 14 program areas
portal.whatworks.org/programs.aspx

How will you be accountable? (Accountability tools)

Administrative calendar

Creating and using an administrative calendar to plan and manage your work ensures that you complete all that is required within deadlines. Tasks include budget preparation and approval, filing of annual returns to the province and the CRA, review of the purpose or objects, Annual General Meetings, payment of taxes such as GST, HST, payroll, and tasks relating to human resource management.

Assign a board director or a team with the Executive Director to create and maintain this administrative calendar. Ask the board to review the draft before it is finalized. Once finalized, it

is a good idea to review the upcoming deadlines for accountability requirements at the beginning of each board meeting.



Appendix C for a sample general administrative calendar.

Policies and procedures

For the board and staff to function consistently within the charity's culture and be accountable, everyone needs to know and follow the policies and procedures. So where do the policies and procedures come from? They have to be developed by the board.

A policy is a formal written statement of a rule that addresses the mission and the operation of a charity. It guides the board and the organization by defining expectations and setting limits for actions and decision-making. While the policy is the "what," procedures address "how to" implement the policy. Procedures are generally written as instructions.



The policy and procedures have to be consistent with the legal requirements covering the areas being addressed.

Typically, there are two types of policies: board policies and operational policies. Board policies guide the work of the board, while operational policies provide direction to staff and volunteers. Operational policies set the environment or parameters for action. The number and the nature of a charity's policies depend on its developmental stage.

If you have policies, make sure that your board, staff, and volunteers are aware of them. Communicating the policies is just as important as developing them.

Typical format for a policy:

- Policy name
- Purpose of the policy (why)
- Definition of the issue
- Desired outcome of the policy
- Who can make exception in the application of this policy
- Date of approval and revisions
- Schedule for review, that is, annual or every x number of years

The Board Development Program information bulletin on *Developing Policy* (culture.alberta.ca/bdp/bulletins/DevelopingPolicy-Print_09.pdf) describes a policy development process with these steps:

- Planning and preparation
- Leadership
- Participation
- Follow-through
- Evaluation

Procedures specify the steps to achieve the policy in more detail. In many cases, organizations group together their policy and procedures relating to one topic.

How to be sure you are ethically accountable

Ethics is the basis of a board's decision and action. The board of a charity should develop or adopt a code of ethics. Imagine Canada's Ethical Code Handbook has a section on "Financial Practice and Transparency" which could easily be adopted. This Handbook is available at www.imaginecanada.ca/files/www/en/ethicalcode/ethical_code_handbook_en.pdf

If you run into a situation where your code of ethics does not address the issue at hand, consider answering these questions (adapted from www.ethics-e-learning.com):

- Will the decision or action be compliant?
 - Is it legal?
 - Is it against the rules of the funders?
 - Is it against the general practice in the charity sector?
- Is the board being responsible?
 - How does it affect our clients and supporters?
 - Is it against individual board member's principles?
- Is the decision or action generally acceptable?
 - Would the charity be okay if the action were reported on the front page of the newspaper?
 - Would board members be ashamed if their peers knew about it?

How to be accountable in human resource management

Human resources are the most important assets of a charity. This includes both staff or employees and volunteers. The board has the overall responsibility for the charity's human resource management. The level of the board's involvement in human resource (HR) management and practices depends on its governance model. At the very least, the board is directly responsible for the development of policies and procedures and for the HR practices relating to an executive director. Remember that the board remains ultimately responsible for human resource management even when it is delegated.

HR management is very important as it cuts across many dimensions:

- compliance with labour legislation
- human rights and privacy issues
- health and safety
- organizational culture

So the HR policies and procedures for both paid staff and volunteers of a charity should

address all these dimensions. These policies and procedures have to be well documented and implemented to ensure that practices are consistent.



The HR Council and the Voluntary Sector website at www.hrcouncil.ca has a wealth of materials from management standards to tools and samples in all areas of human resource management. See:

- HR Management Standards
- HR Checkup
- HR Responsibility Chart

www.hrcouncil.ca/docs/Table_HR_Resp.pdf
(see Appendix D)

References for provincial labour legislation

Here are good starting points for provincial requirements. They may lead you to other sources of information.

- Alberta: www.alrb.gov.ab.ca/guidecontents.html
- British Columbia: www.labour.gov.bc.ca/esb/facshts/welcome.htm
- Manitoba: www.gov.mb.ca/labour/standards/index.html
- New Brunswick: www.gnb.ca/0308/index-e.asp

- Newfoundland and Labrador: www.hrle.gov.nl.ca/lrb/board/legislation.html
- Nova Scotia: www.gov.ns.ca/lwd/
- Ontario: www.labour.gov.on.ca/english/
- Prince Edward Island: www.gov.pe.ca/ssss/index.php3?number=1002354&lang=E
- Quebec: www.cnt.gouv.qc.ca/en/home/index.html
- Saskatchewan: www.labour.gov.sk.ca/legislation/



Also check out the Fast Facts:
Legal Requirements for Registered
Charities and Non-Profit
Organizations at [www.charitycentral.ca/
docs/legalreq-en.pdf](http://www.charitycentral.ca/docs/legalreq-en.pdf)

How to be accountable in volunteer management

In many charities and non-profit organizations, volunteers play an important role in governance, administration, and program delivery. They and staff share similar issues, such as workplace safety and privacy.

Management policies and procedures relating to volunteers are as necessary and important as those for staff.

The “Canadian Code of Volunteer Involvement,” developed by Volunteer Canada and the Canadian Administrators of Volunteer Resources, states the value, guiding principles, and organizational standards for volunteer involvement. In summary, a charity or non-profit organization that has volunteers should:

- acknowledge, recognize, and integrate volunteers into its human resource team to pursue its mission
- have policies and procedures for volunteer recruitment and screening, orientation, training, supervision, claims for expenses; the role of volunteers vis-à-vis staff; conflict resolution and evaluation
- have clear job descriptions for volunteers
- have a designated person responsible for the volunteer program
- keep good records of volunteers as required by legislation and other stakeholders



A copy of the “Canadian Code of Volunteer Involvement” can be downloaded at www.cavrcanada.org/_Library/Docs/CodeEng.pdf

How to be accountable in fundraising

In fundraising activities, charities are accountable:

- to all levels of government (federal, provincial, and municipal) for licensing requirements
- to the public for not misrepresenting the charity and for the purpose of the fundraising activity
- for the action of staff, volunteers, and third-party contractors
- to the donor for reporting and managing the funds
- to the CRA for reporting requirements, compliance with the rules for issuing donation receipts, maintaining books and records for fundraising expenses and revenues, and for the acceptable ratio of fundraising revenue and expenses (for registered charities only)
- to other stakeholders for proper management of funds

Compliance requirements for fundraising by registered charities

The CRA Fundraising Guidance gets your board to ask itself questions regarding:

- the control you have over your activities, no matter who is organizing them
- how compensation is determined for staff or third-party contractors
- the budget for fundraising events and how expenses, particularly charitable and administrative, will be tracked
- the benefits (advantages) donors receive and how to determine the eligible amount for tax receipts
- the records kept of discussions and decisions relating to a fundraising event
- control of cost-to-revenue ratios



See the suggested ratio at

www.charitycentral.ca/node/499

- how accurate information about the charity is prepared and delivered
- time set aside for debriefing the event

The CRA's complete Fundraising Guidance, available at www.cra-arc.gc.ca/chrts-gvng/chrts/plcy/cps/cps-028-eng.html, provides information about:

- telling the difference between charitable and non-charitable expenses
- refraining from unacceptable and prohibited practices
- managing reasonable costs-to-revenue ratios
- identifying signs of best practices



See also www.charitycentral.ca/node/487 for best practice indicators.

In communicating with your stakeholders, the charity needs to comply with privacy legislation regarding personal information. Both federal and provincial legislation address privacy issues.



- For more information, see Tipsheet on Privacy Policy Checklist at www.charitycentral.ca/docs/privacy-en.pdf.
- See also www.charitycentral.ca/node/402 for FAQs on privacy legislation.

Provincial compliance requirements for fundraising

Many provinces have their own fundraising legislation, for example, the province of Alberta has the *Charitable Fundraising Act and Regulation*. Do you know your provincial compliance requirements? Check out the up-to-date list of provincial legislations on CRA website.



Provincial and territorial
government contact

[www.cra-arc.gc.ca/chrts-gvng/chrts/prvnsc/
menu-eng.html](http://www.cra-arc.gc.ca/chrts-gvng/chrts/prvnsc/menu-eng.html)

Transparency + Communication → Accountability

Accountability, transparency, and communication go hand in hand. A charity that is accountable and employs open management practices can be rooted in fine principles. But if it fails to communicate with its stakeholders, the charity may be viewed as neither accountable nor transparent.

As mentioned, charities need to be proactive in sharing their program outcomes, the results of their fundraising activities, and other pertinent information in order to create and maintain their credibility.

We hope it's obvious that all registered charities and non-profit organizations should aim to be accountable and transparent. This is an on-going

process that takes time and commitment from the board and staff on a routine basis.

Alert to the issues of accountability, you as a board of directors can now take the time to review what you have in place, consider what practices to adopt, what tools to make use of, and to develop a plan to move forward along the road to accountability. Your legacy to those who follow you on the board of directors can be high standards, good practices, and the documentation of your organization's accountability practices. To assess the current accountability practices of your organization, visit www.charitycentral.ca/docs/selfdiag-en.pdf to download the Self-Diagnostic pack.

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Other Resources

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Valuable websites

Charity Central: www.charitycentral.ca

This website contains resource materials on registered charities. New resource materials on accountability will continue to be developed till March 31, 2011 as part of the Road to Accountability project.

Canadian Administrators of Volunteer Resources:
www.cavrcanada.org

Canadian Council of Christian Charities:
www.cccc.org

HR Council for the Nonprofit Sector:
www.hrcouncil.ca

General Websites on Registered Charities

The following organizations have received grants from the CRA under the Charities Partnership and Outreach Program (www.cra-arc.gc.ca/chrts-gvng/chrts/fndng/menu-eng.html) to develop and deliver educational resources and training to registered charities.

Actions interculturelles de développement et d'éducation (AIDE) Inc.:
www.aide.org/site/index.php

Canadian Association of the Deaf: www.cad.ca

Canadian Council for International Co-operation:
www.ccic.ca

Centre for Voluntary Sector Research and
Development – Carleton University:
thecharitiesfile.ca/

CentrePoint Non-Profit Management:
www.thecentrepoint.ca/today/index.html

Community Futures South Fraser:
www.southfraser.com/

Community Sector Council of Newfoundland and
Labrador Inc.: www.envision.ca

Éducaloi: www.educaloi.qc.ca/en/loi/charities/

Imagine Canada: charitytax.imaginecanada.ca/

Institute for Non-Profit Studies – Mount Royal
University: www.charityfilingguide.ca/en/index.html

Legal Information Society of Nova Scotia:
www.legalinfo.org/

Legal Resource Centre of Alberta – Charity
Central: www.charitycentral.ca

Ontario Community Support Association:
www.capacitybuilders.ca/clip/clip.php

Public Legal Education and Information Service of
New Brunswick: www.legal-info-legale.nb.ca

Appendices

Appendix A

Books and Records Retention Requirement for
Registered Charities

Appendix B

Financial Reporting and Registered Charities
FAQs

Appendix C

Sample General Administrative Calendar

Appendix D

Human Resources Responsibility Chart

Appendix A

Books and Records Retention Requirement for Registered Charities

www.charitycentral.ca/docs/ff_booksrecords_0610.pdf



Fast Facts

Books & Records Length of Retention

Type of Record	Description	Retention Period
Records Concerning Gifts	Duplicates of receipts for donations (other than 10-year gifts to Registered Charities)	<ul style="list-style-type: none"> 2 years from the end of the last calendar year to which the receipts relate
	All records concerning 10-year gifts	<ul style="list-style-type: none"> as long as the charity is registered 2 year after the date on which the registration of the charity is revoked
Records of Meetings	Any record of the minutes of meetings of the directors/executive	<ul style="list-style-type: none"> as long as the charity is registered 2 year after the date on which the registration of the charity is revoked
	Any record of the minutes of meetings of the members	<ul style="list-style-type: none"> as long as the charity is registered 2 year after the date on which the registration of the charity is revoked
General Ledger	The general ledger or other book of final entry containing the summaries of the year-to-year transactions	<ul style="list-style-type: none"> 6 years from the end of the last taxation year to which the record relates, while the charity is registered 2 years after the date on which the charity is revoked
	Any special contracts or agreements necessary to an understanding of the entries in the general ledger or other book of final entry	<ul style="list-style-type: none"> 6 years from the end of the last taxation year to which the record relates, while the charity is registered 2 years after the date on which the charity is revoked

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Type of Record	Description	Retention Period
All Documents and By-laws Governing a Registered Charity	All documents and by-laws governing a Registered Charity	<ul style="list-style-type: none"> as long as the charity is registered 2 year after the date on which the registration of the charity is revoked
Other Books and Records of Account	Books and records, together with the accounts and vouchers, containing the summaries of the year-to-year transactions of the charity	<ul style="list-style-type: none"> 6 years from the end of the last taxation year to which the record relates 2 years after the date on which the registration of the charity is revoked
Other (Non-exhaustive list)	Financial statements Invoices/vouchers T3010As & T3010Bs	<ul style="list-style-type: none"> 6 years from the end of the last taxation year to which the record relates 2 years after the date on which the registration of the charity is revoked

Appendix B

Financial Reporting and Registered Charities FAQs

www.charitycentral.ca/docs/financialkit-en.pdf



FAQs

Financial Reporting and Registered Charities

Choosing a Professional Accountant

PA1

Once we're a registered charity, do we need a professional accountant?

No. It is not necessary to have a professional accountant.

Hiring a professional accountant is not related to your registered charity status with the Canada Revenue Agency (CRA). The CRA recommends that charities file audited financial statements if their gross income from all sources is more than \$250,000. You should evaluate the needs of your organization and the resources that you have available from within the organization. Someone in the organization needs to understand what is required in being a registered charity, including completion of the Registered Charity Information Return (T3010), and where to find the necessary information and resources.

The charity's treasurer should sign any financial statements that have not been professionally prepared.

PA2

What does a professional accountant do that our accounting clerk or volunteer bookkeeper can't?

While **bookkeeping** records your organization's transactions, **accounting** involves the whole process of recording, classifying, presenting, and interpreting the financial transactions. There is a big difference between accounting and bookkeeping.

Recording and preserving the transactions is **bookkeeping**. This function ensures that appropriate records and documentation exist for all financial transactions.

Presenting the financial transactions through financial statements and other required reports is an **accounting** function. These statements and reports show the results of operations and the financial condition of the organization.

The interpretation part of the accounting process involves analysis, explanation, and use of the information presented in financial reports. A professional accountant is trained and experienced in interpreting and reporting financial information from a perspective that an accounting clerk might not have.

You may be lucky enough to have a volunteer who is a professional accountant, but who may not have the time or the expertise in not-for-profit reporting to fill the role completely. If this is the case, you still need to examine your need for a professional accountant with the needed expertise.

PA3

What types of accountants are considered professional accountants in Canada?

In Canada, the provinces govern the accounting profession and the different services that each type of accountant may provide. All provinces recognize the three main accounting designations in Canada:

- CGA (Certified General Accountant)
- CA (Chartered Accountant)
- CMA (Certified Management Accountant).

PA4

What type of professional accountant do we need for what?

As mentioned in FAQ PA3, the provinces determine what services each designation can provide to the public. Services are usually categorized as

- **assurance services** that include audit and review services, and
- **non-assurance services**, which include compilations or notice-to-reader engagements (see FAQ FMR7) and tax filings that include Registered Charity Information Returns (T3010).

Once your organization decides what services you need, refer to the provincial website of each accounting body to determine which designation can best meet your needs. Most of these websites will also contain a referral list of accountants in your area that provide the services you're looking for.

The national websites for the accounting bodies are

- Certified General Accountants Association:
www.cga-canada.org
- Institute of Chartered Accountants:
www.cica.ca
- Society of Certified Management Accountants:
www.cma-canada.org

Each of these websites has links to the provincial sites.

T3010 in English is available on CRA website at www.cra-arc.gc.ca/chrts-gvng/chrts/prtngr/rtrn/flngb-eng.html

T3010 in French is available on CRA website at www.cra-arc.gc.ca/chrts-gvng/chrts/prtngr/rtrn/flngb-fra.html

PA5

What should we look for in choosing a professional accountant, whether volunteer or paid?

Your professional accountant should have experience working with charities and understand the compliance requirements of being a registered charity. Whether volunteer or paid for their services, your accountant should have the time to provide all the services you need.

Ideally, a prospective professional accountant should provide references from other charities for which he or she is providing services.

PA6

We're a new not-for-profit organization that recently received registered charity status. Should we get a professional accountant to set up our accounting records?

Accounting systems can be set up by anyone with experience in accounting or bookkeeping. A professional accountant can provide valuable advice if your charity has complex operations or a specific or unusual circumstance requiring professional expertise. In particular, anyone setting up your accounting records should know what's required to complete the T3010 (Registered Charity Information Return).

T3010 in English is available on CRA website at www.cra-arc.gc.ca/chrts-gvng/chrts/prtngr/rtrn/flngb-eng.html

T3010 in French is available on CRA website at www.cra-arc.gc.ca/chrts-gvng/chrts/prtngr/rtrn/flngb-fra.html

PA7

How should the accounting records be set up so we can easily complete the Registered Charity Information Return (T3010)?

Your charity needs to consider all the users of your financial information and their requirements. One of the most important users of a charity's financial information is the Canada Revenue Agency (CRA). You need to understand the financial information required for the T3010:

- The balance sheet information for the T3010 is basically the same as in any set of financial statements.

The revenue and expense accounts on the T3010 are designed to provide the CRA with information they need to monitor charities. The CRA's categories may not provide information in the same way as you need for management purposes or to meet other user needs.

Your charity should design your accounting system so that you can easily transfer information to the T3010 return. Keep track of where the information originates in the accounting system so that you can report consistently to the CRA from one year to the next. This is particularly important when the person who is completing the return changes from year to year, as may be the case when a volunteer or an external accounting firm does the work.

For more information, see the Tipsheet #4 – Financial and Other Information Needed to Complete the Registered Charity Information Return (T3010)

T3010 in English is available on CRA website at www.cra-arc.gc.ca/chrts-gvng/chrts/prtnng/rtrn/flngb-eng.html

T3010 in French is available on CRA website at www.cra-arc.gc.ca/chrts-gvng/chrts/prtnng/rtrn/flngb-fra.html

Financial Management and Reporting

FMR1

What's the difference between financial statements from our accounting system and "audited financial statements"?

Having "audited financial statements" usually means that a person independent of the organization's management has gathered evidence to support the financial information that management provided. This independent person or body adds a report to the information expressing whether the information has been fairly presented. (When accountants say the information is "fairly presented," they mean that it is complete and has been shared openly and honestly.)

You need to address the fact that audited financial statements are not always done by professional accountant. Those involved in not for profit organizations generally think of audited

financial statements as those audited by professional accountants. The bylaws of some organizations indicate that two members of the organization can also provide the audit services and report to the board.

When external professional accountants perform an audit and issue their audit opinion, they follow generally accepted auditing standards and report using generally accepted accounting principles. These are broad and specific rules adopted by the accounting profession as guidelines for measuring, recording, and reporting the financial transactions and activities of an organization. This provides consistency in reporting between organizations and within one organization from year to year.

In contrast, statements from a charity's accounting system do not provide the same assurance to financial statement users and very often do not match accounting standards.

FMR2

What is meant by “good financial management”? Who is ultimately responsible for the financial management of a charity?

Good financial management means your charity cares appropriately for the money entrusted to your organization in order to meet your community’s needs and your requirements as a registered charity. Good financial management includes planning ahead for your financial needs, establishing and monitoring financial policies, and establishing and monitoring internal controls appropriate for your organization.

The whole board is responsible for the financial management of the organization, not just the treasurer or the finance committee. The board should establish financial policies and monitor these policies to ensure they reflect the current desires or practices of the board and make changes as required. The board must also keep an eye on financial practices to ensure that the policies are being carried out as intended.

FMR3

Are audited financial statements always done by professional accountants?

No. The term “audited financial statement” does not always refer to financial statements that are audited by a professional accountant. The bylaws of some registered charities indicate that two members of the organization can also provide the audit services and report to the board and members.

FMR4

Are registered charities required to submit audited financial statements to the Canada Revenue Agency with their annual T3010?

No. Registered charities are required to provide a copy of their financial statements with their T3010, but the statements do not have to be audited. The CRA recommends that charities file audited financial statements if their gross income from all sources is more than \$250,000.

FMR5

If the CRA doesn’t need audited financial statements, why do we have to have them?

Audited financial statements assure the users of your financial information that the information is fairly presented. You may need the audit financial statements to meet legal requirements in your constitution and bylaws or to satisfy government regulations and the needs of the users. Users include funders, members, board, management, creditors, bankers, employees, donors, beneficiaries of services, and the community at large.

FMR6

Is it a good practice to have our financial statements audited by a professional accountant?

The requirement for an audit may be found in a charity’s bylaws or other legal documents or may be required by a funder or other financial statement user. An audit can often identify financial errors in information, but whether it is a good practice, necessary, or unnecessary is different for different types and sizes of organizations.

FMR7

What is a “letter of engagement” with a professional accountant?

An engagement letter is a formal contract with a professional accountant for services. This letter outlines the terms of the arrangement with the accountant and the type of report that will be provided. Read the engagement letter carefully; once signed, it becomes a legal contract. If there are any questions regarding the content of the letter, discuss these items with the accountant before signing.

FMR8

What are the different types of services that a professional accountant can provide?

You may engage an accountant for three types of financial statement services available to charities:

- compilations (or notice-to-reader engagements)
- review engagements
- audit engagements

A **compilation engagement** is appropriate for many small private organizations. The goal of a compilation is to prepare financial statements or other necessary financial information for your charity, based on data and information that you provide. Because you have provided all the information, the accountant does not give any assurance about the reliability or accuracy of the financial information being prepared.

Financial statements prepared under a compilation engagement are considered “compiled statements”.

A **review engagement** is seen as a limited-assurance engagement. What this means is that an independent accountant is expected to determine whether the financial information presented by

the charity is plausible or believable, but does not actually express an opinion on the fairness or validity of the financial statements. Unlike a compilation, which provides no assurance to the financial statement users, a review engagement is designed to offer a moderate assurance that the information is reliable. For some registered charities, a review engagement may be appropriate to satisfy the needs of the financial statement users. You need to determine whether your financial statement users will be satisfied with a review engagement or whether your bylaws permit a review engagement instead of an audit.

Financial statements prepared under a review engagement are considered “reviewed statements”.

An **audit engagement** is designed to provide the highest level of assurance for financial statement users. Audit procedures are designed specifically to allow the auditor to develop and express an independent opinion on the overall fairness of the financial statements. The auditor is also examining the financial statements to verify that they have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP).

Financial statements prepared under an audit engagement are the only ones that can be considered “audited financial statements”. The more assurance that the accountant provides to financial statement users, the more time the accountant will require on the engagement and therefore, the higher the fee. So you see, a compilation engagement that does not provide any assurance has fees that are much less than a review, which provides some assurance. An audit provides the most assurance so the fees are highest for an audit. An audit also provides a letter to management with recommendations for improvements to internal controls and other areas of interest to management.

FMR9

How is cost determined in having our financial statements audited?

In general, audit fees are based on a combination of the time needed to complete an audit and the level of staff required for that specific engagement. Audit fees can be charged based on a set fee quote agreed to before work begins or the fees may be based on the number of hours required to complete the work. Though time and expertise are the most significant factors determining audit fees, organizational characteristics, such as complexity and size, will have an impact.

FMR10

What work does our charity need to do in an audit of our financial statements?

In order for the audit to progress smoothly and efficiently, you must play an active role in the audit process.

- The auditor will provide your organization with a list of documents and working papers needed for the audit to proceed. You'll need to prepare these and provide them to the auditor on time.

Both your management and accounting staff should be aware of the audit and be available during the fieldwork portion of the audit in order to answer questions. If key personnel will not be available, you should let the auditor know as soon as possible, so that the audit plan can accommodate this.

- Management is responsible for informing the auditor of your expected timeline for the completion of the audit, particularly of any strict deadlines and the reasons for them.
- You are also responsible for continuing to maintain accounting records throughout the audit period, and making these documents available to the auditor upon request.

- Management should carefully read all letters from the auditor and ask immediately about any items that are unclear or incorrect.
- When you receive the audited financial statement drafts, management and other key parties need to take the time to review the statements and contact the auditor with any questions, comments, or concerns. Management must also review all audit adjusting entries and approve them before the final financial statements are issued. If your organization and the auditor are able to work together effectively and have an open line of communication, the audit can proceed as planned and all deadlines can be met.
- The board of directors has legal and fiduciary duties that include oversight of financial reporting. On a day-to-day basis, the board relies on staff or volunteers to provide them with the financial information needed to make effective decisions. Although others provide the board with the financial information, ultimately the board of directors is responsible for reporting to members and funders. For this reason, the board is asked to read, understand, and approve the final draft of the financial statements before the auditor releases the audit report.
- Depending on your organization, you may or may not have a finance or audit committee. If there is a committee, it usually plays an oversight role and is responsible for monitoring both management and the external auditor during the audit process. The committee is responsible for checking the selection of and compliance with accounting policies and practices within the organization. If an audit committee has been formed, it is primarily responsible for monitoring the appointment of an external auditor. The committee is also responsible for reviewing the organization's internal control systems to make sure that they are operating effectively. Without either of these committees, the board of directors usually assumes these responsibilities.

FMR11

What work does the auditor do?

- The auditor gathers information from the client to assess whether the financial information provided is correct. Once the risk is assessed, the auditor plans how to gather evidence to support the financial statements.
- The auditor ensures that the financial statements follow generally accepted accounting principles and adds a report that provides assurance to the financial statement users.
- The auditor will provide a report to management recommending any needed improvements in internal controls and other financial recording and reporting areas.

FMR12

Does an audit help the charity in completing their annual Registered Charity Information Return?

No. Not necessarily. An audit is carried out to meet requirements as outlined in **FAQ FMR4**. As audited financial statements are required by users other than the Canada Revenue Agency, the information is often presented differently from what is required on the Registered Charity Information Return. An audit may identify errors in a charity's accounting records that may have an impact on the accuracy of information provided on the return.

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www.charitycentral.ca
E: info@charitycentral.ca

March, 2010

Appendix C

Sample General Administrative Calendar

A key responsibility of a board member is to ensure that your organization fulfills its commitments on time.

Commitments may be divided into two categories:

- Externally imposed commitments
- Internally imposed commitments

Externally imposed commitments or deadlines may be imposed on your organization by statutes and regulations. For example, deadlines for filing annual returns are prescribed by the *Alberta Societies Act* and *Charitable Fund-Raising Act*, and the federal *Income Tax Act*.

Internally imposed commitments may be imposed by your organization's policies or agreements with funders, staff, or other entities with which you deal, for example, reporting deadlines under grant agreements or renewal deadlines for leases.

If you maintain an organizational calendar regularly, you can keep on top of all of your organization's commitments and deadlines.

A calendar should reflect your organization's very own fiscal year; other organizations' calendars will likely be different than yours. Review the example calendar, at the end of this section, which illustrates different fiscal year commitments.

What items should be included in an organizational calendar?

- Deadlines for filing annual provincial return (for example, under the *Societies Act*) or federal return
- Deadlines for filing annual charitable returns with Canada Revenue Agency
- Notice of Annual General Meeting (AGM)
- Reminder to review your constitutional documents, especially bylaws and mission, yearly before AGM
- Reminder to review governing statute yearly before AGM
- Date of AGM

- Reminder to update board members' contact info after AGM
- If bylaw amendments have been made, a reminder to file amendments with provincial or federal authority, and the CRA
- Reminder to review policies yearly at the first board meeting after AGM
- Notice of special meetings
- Deadline for filing GST returns and rebates
- Deadline for submitting payroll deductions, i.e. withholding income taxes
- Contract commitments
- Deadlines related to grant and/or funding agreements
- Preparation of annual budget
- Annual review of Executive Director
- Deadlines for Employees' annual performance appraisals
- Review or create policies
- Review of fundraising plan or activities
- Renewal dates for lease and/or rental agreements
- Deadlines or renewal dates for insurance



Check your organizational calendar at least monthly and at all board meetings to ensure you are meeting your commitments.

Use the sample calendar and the blank template provided on the following pages to make an organizational calendar for your charity. Or, create your own custom calendar. Distribute the completed calendar to all board members and key staff. Put a copy in your administrative file.

Sample General Administrative Calendar – Fiscal Year-End: December 31

Note: The timing for each of the following activities is relative to the timing of the beginning of the fiscal year.

Note: The bylaws should be reviewed for timing specific things. For example, timeframes for nominations for board positions; voting by proxy.

Working versions of the administrative calendar are available in Word (www.charitycentral.ca/docs/admincal-en.doc) and in Adobe Acrobat (www.charitycentral.ca/docs/admincal-en.pdf).

Date	Task	Year	Completed	Person responsible
January: 1	(Fiscal year begins – This is the charity’s “Anniversary Month”)	2010		
		2011		
		2012		
		2013		
January: 31	Arrange for review or audit of the books	2010	<input checked="" type="checkbox"/>	Treasurer
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
	Establish deadline for Employees’ Annual Performance Appraisal	2010	<input checked="" type="checkbox"/>	Chair, if no Executive Director
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
February: last Friday of month	Essential: Deadline to issue T4 slips to employees and file T4 return Tip: Must be signed by signing authorities	2010	<input checked="" type="checkbox"/>	Secretary, if there is no Executive Director
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
February: 28	Suggested: finish issuing receipts to donors for previous year (so that donors may claim deduction on their tax return)	2010	<input checked="" type="checkbox"/>	Treasurer
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
February: 28	Establish timeline for communicating with donors	2010	<input checked="" type="checkbox"/>	Executive Director or designated board member for fundraising
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
February: 28	Suggested: Review of government-funded project commitments (deliverables and finances)	2010	<input checked="" type="checkbox"/>	Chair or Executive Director
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
March: 31	Essential: Deadline to file annual return (provincial or federal) Hint: Must be signed by signing authorities	2010	<input checked="" type="checkbox"/>	Secretary
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
March: 31	Suggested: Deadline to prepare for election, if applicable this year	2010	<input checked="" type="checkbox"/>	Chair
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	

Date	Task	Year	Completed	Person responsible
April: 9	Essential: Deadline to send notice of AGM (that is, 21 days prior) Hint: Notify regarding any special resolutions	2010	<input checked="" type="checkbox"/>	Secretary
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
April: 30	Suggested: Ensure financial statements have been prepared and T3010 (annual charitable return) is being worked on Tip: put time and effort into the "Ongoing Programs" and "New Programs" sections of the form. This info will be posted online, so treat this section like an ad for what your charity does.	2010	<input checked="" type="checkbox"/>	Treasurer
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
April: 30	Essential: Deadline to hold AGM, that is, 90 days after fiscal year-end	2010	<input checked="" type="checkbox"/>	Chair
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
May:	Mid-month Suggested: Board orientation	2010	<input checked="" type="checkbox"/>	Chair
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
May:	Mid-month Suggested: first full board meeting Hint: Confirm or establish signing authorities	2010	<input checked="" type="checkbox"/>	Chair
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
May: 31	Suggested: Have Board or professional advisors review a draft of the T3010	2010	<input checked="" type="checkbox"/>	Treasurer
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
June: 30	Essential: Deadline to file T3010 Hint: Must be signed by signing authorities	2010	<input checked="" type="checkbox"/>	Secretary
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
July:	Essential: Deadline to file T3010 Hint: Must be signed by signing authorities	2010	<input checked="" type="checkbox"/>	Secretary
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
Date	Task	Year	Completed	Person responsible

August: 31	Suggested: Confirm that your organization's T3010 info is correct on the CRA website www.cra-arc.gc.ca/chrts-gvng/chrts/menu-eng.html	2010	<input checked="" type="checkbox"/>	Secretary
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
September: 30	Suggested: Preparation of annual budget	2010	<input checked="" type="checkbox"/>	Typically Chair, Treasurer, & Secretary if there is no Executive Director
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
September: 30	Suggested: Annual strategic planning meeting	2010	<input checked="" type="checkbox"/>	All board
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
October: 30	Suggested: Review of bylaws	2010	<input checked="" type="checkbox"/>	All board
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
November: 30	Suggested: Review of all administrative agreements and policies, including • Review of rental lease • Review of insurance • Review of contract commitments • Review of human resources policies and procedures	2010	<input checked="" type="checkbox"/>	Chair and Executive Director
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
December: 31	Suggested: Executive Director's annual performance appraisal (Fiscal year-end)	2010	<input checked="" type="checkbox"/>	Chair & committee
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
December: 31	Essential: Deadline to file GST Hint: CRA assigns your reporting period when you register for a GST account. You can choose to file more frequently by changing your reporting period with CRA, using Form GST20, Election for GST/HST Reporting Period. Hint: signing authorities 2010	2010	<input checked="" type="checkbox"/>	Secretary, if there is no Executive Director
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	

Date updated: _____ Name: _____
Day/ month/ year

General Administrative Calendar for _____
 [name of organization]

Fiscal Year-End: _____

Date	Task	Year	Completed	Person responsible
		2010	<input type="checkbox"/>	
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
		2010	<input type="checkbox"/>	
		2011	<input type="checkbox"/>	
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Date	Task	Year	Completed	Person responsible
		2010	<input type="checkbox"/>	
		2011	<input type="checkbox"/>	
		2012	<input type="checkbox"/>	
		2013	<input type="checkbox"/>	
		2010	<input type="checkbox"/>	
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Date	Task	Year	Completed	Person responsible
		2010	<input type="checkbox"/>	
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		2013	<input type="checkbox"/>	
		2010	<input type="checkbox"/>	
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Date updated: _____ Name: _____
Day/ month/ year

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www.charitycentral.ca/office

Appendix D

Human Resources Responsibility Chart^{1,2}

www.hrcouncil.ca/docs/Table_HR_Resp.pdf

Human Resources Management	Board	Executive Director (ED)	Line Manager
Legal Responsibilities	The Board is the legal employer of an organization	The ED is accountable to the Board for employment issues	Line Managers are accountable to the Executive Director for employment issues
Legislation	As the legal employer the Board is ultimately accountable for compliance with all legislation related to employment. The Board must monitor compliance with legislation. If legislation is breached, the board as a whole and in some cases individual board members will be held accountable by the courts.	The ED oversees compliance with all employment legislation on behalf of the Board The ED keeps up to date on changes in employment legislation and ensures that the Board is informed about such changes. The ED may delegate the responsibility for monitoring changes in legislation to another employee.	Line Managers uphold all legislation related to employment.
Employment Contracts	The Board is accountable for issues that arise from employment contracts; for example: wrongful dismissal. The Board negotiates and writes the employment contract for the Executive Director.	The ED ensures that employment contracts are legally defensible; for example: the termination clause in the contract complies with Employment/Labour Standards. The ED ensures that all staff have written employment contracts.	The Line Manager uses the organization's standard contract form and ensures that it is followed. The Line Manager may prepare employment contracts for direct reports.
Vicarious Liability	As the employer, the Board may be held liable for the wrongful actions of its employees.	The ED is responsible for implementing risk management processes to reduce vicarious liability	The Line Manager is responsible for managing risks to reduce vicarious liability

1 Reprinted with permission from the HR Council for the Voluntary and Non-Profit Sector

2 RC refers to Registered Charity

Policies: Develop written human resources policies and procedures.	<p>Involvement in policy development depends upon the governance structure. Working Boards, Mixed Boards and Traditional Policy Boards review human resources management policies.</p> <p>Policy Governance Boards set very broad parameters within which human resources policies are developed.</p> <p>At a minimum, Boards should approve human resources policies that have legal implications for the Board such as screening policies and harassment policies.</p> <p>The Board is responsible for ensuring that all human resources policies comply with Human Rights, Employment/ Labour Standards and all other legislation.</p>	<p>The ED develops human resources policies. If the governance structure is a Mixed Board or a Traditional Policy Board, a committee may also be involved in developing human resources policies.</p> <p>With a Policy Governance Board, the ED develops all human resources policies within the parameters set by the Board.</p>	<p>The Line Manager is responsible for complying with all human resources policies.</p> <p>Line Managers may identify areas where policy development is needed.</p>
Job Descriptions: Prepare written job descriptions for each staff position.	The Board develops the job description for the Executive Director.	The ED ensures that job descriptions are written for all other staff.	The Line Manager may write job descriptions for direct reports.
Recruitment and Selection: Establish a standard process for recruitment and selection.	<p>The Board establishes the recruitment and selection process for the Executive Director.</p> <p>The Board ensures that an appropriate screening process is in place for staff and volunteers working with children and vulnerable adult clients.</p>	<p>The ED oversees the recruitment and selection of all other staff.</p> <p>The ED recruits and selects all direct reports.</p> <p>The ED oversees the establishment of the screening protocol for staff and volunteers.</p>	<p>Line managers may be responsible for the recruitment and selection of direct reports.</p> <p>Line Managers are responsible for conducting screening according to the established protocol.</p>
Orientation: Orientation is provided to all new staff to the organization	The Board ensures that an orientation process is in place when a new Executive Director is hired.	The ED ensures that an orientation process is in place for all staff.	Line Managers oversee the orientation of direct reports.
Training and Development: Staff members are trained and provided with opportunities to acquire new knowledge and skills	The Board ensures that funds are budgeted for training and development.	The ED ensures that staff are properly trained for their work and that development opportunities are available.	Line Managers are responsible for on-the-job training and for helping staff to identify other training and development opportunities.

Human Resources Management	Board	Executive Director (ED)	Line Manager
Performance Management: Monitor and evaluate performance through a performance management process.	The Board monitors and evaluates the performance of the Executive Director.	The ED establishes a performance management system for all staff. The ED monitors and evaluates the performance of all direct reports.	Line Managers monitor and evaluate the performance of all direct reports.
Supervision: Provide appropriate, supportive supervision, and ongoing feedback on employee performance.	The Board supervises the work of the Executive Director.	The ED ensures that all Line managers are given supervisory training. The ED supervises the work of all direct reports.	Line Managers supervise the work of all direct reports.
Compensation and Benefits: Provide fair compensation and reasonable benefits.	The Board ensures that guidelines are in place for setting compensation. The Board negotiates the compensation of the Executive Director.	The ED is responsible for establishing the salary range for all staff positions.	The Line Manager may set compensation within the appropriate salary range in consultation with the Executive Director.
Health and Safety: Provide a work environment that is healthy and safe.	The Board ensures that the working conditions and relevant policies of the organization comply with health and safety legislation	The ED ensures a healthy and safe workplace.	Line Managers address issues of workplace health and safety with their direct reports.
Discipline and Termination: Discipline and termination processes are established.	The Board ensures that fair and legally defensible policies and processes for discipline and termination are established.	The ED sets the discipline and termination processes and ensures that all supervisors are given appropriate training on the processes. The ED deals with disciplinary issues of direct reports.	Line Managers deal with disciplinary issues according to the established process. Line Managers consult with the Executive Director when termination may be necessary.
Conflict Resolution: A conflict resolution process is in place for the organization.	The Board ensures that an appropriate policy and process for resolving workplace conflicts is established.	The ED ensures that workplace conflicts are resolved. The ED follows the conflict resolution process when direct reports are involved in conflict.	Line Managers follow the established conflict resolution process to find a satisfactory solution to conflicts involving their direct reports.

A green rectangular road sign with a white border and the words "ROAD TO" in white capital letters. The sign is tilted slightly to the right and is mounted on a grey post.

Accountability Handbook

For more information, contact:
Diane Rhyason, Executive Director
Centre for Public Legal Education Alberta
#800, 10050 – 112 Street
Edmonton, AB T5K 2J1
Phone: 780.451.8764
Fax: 780.451.2341
Email: info@cplea.ca
Web: www.cplea.ca

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