THE OTTAWA REGION
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New Accounting and Auditing Standards for Not-for-Profits

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Introduction

- The Canadian Institute of Chartered Accountants regulates our profession
- Handbook of Accounting and Auditing (Assurance) Standards
- Our "Bible" provides authoritative guidance – the commandments of the game
- Failed corporate governance, accounting abuses, and outright greed.
- Enron, WorldCom, etc. necessitated raising the bar on auditing standards
- Canada is becoming in synch with international standards
- Numerous changes to standards in recent years

New Accounting Standards
Financial Instruments-Inclusions

- Cash
- Receivables
- Payables
- Equity instruments (investments in bonds, GIC's equities, etc.)
- Capital, direct financing or sales-type lease (lease receivable or obligation payable)
- Derivatives such as futures, forward, swap and option contracts

Financial Instruments-Exclusions

- Inventories
- Prepaid expenses
- Capital assets
- Leased assets
- Intangible assets
- Deferred revenue or deferred contributions

Fair Value

- Previously mostly everything was measured at historical **cost** and amortized.
- Previously it may have been necessary to occasionally write down items to market value (i.e. to fair value).
- New rules require initial measurement of financial assets and financial liabilities at **fair value.** This is now considered the most relevant measure.
- Note that prior periods figures are not restated

Effective Dates-Implementation

- Year ends beginning on or after October 1, 2006.
- Early adoption has been permitted (year ends ending on or after December 31, 2004).
- Now mandatory to use the new financial instrument rules so as to be in accordance with Generally Accepted Accounting Principles (GAAP)

Held to Maturity Financial Assets

Must meet all 4 of these **criteria**:

- Fixed or determinable payments
- Fixed maturity (excludes shares)
- Intent to hold to maturity
- Ability to hold until maturity

Initially at fair value then subsequent measurement at amortized cost using the effective rate of interest (.i.e. valuations later on are often at variance from fair value)

Loans and Receivables

- Initially at fair value then subsequent measurement normally at amortized cost using the effective rate of interest.
- The discounted fair value is based on current interest rates.
- No or low-interest loans give rise to donations/grants

Held-For-Trading

- Often where frequent buying & selling for short-term profit (but any financial instrument can be so designated).
- Initially at fair value, then subsequent measurement based on fair value.
- Gains and losses are recognized in the statement of revenue and expenses (includes realized and unrealized gains and losses).
- This allows a more simplified accounting using the market values as provided on the investment statements

Available-For-Sale

- Not actively traded but possibility to be sold before maturity.
- Could include equities
- Initially at fair value, then subsequent measurement based on fair value.
- **Realized** gains and losses are recognized in the statement of revenue and expenses (statement of operations)
- **Unrealized** gains and losses are recorded as increases and decreases to net assets (surplus) or to deferred contributions
- **Advantage:** this classification results in more stable investment income;
- **Disadvantage:** extra work to perform the complicated accounting.

New Auditing Standards
Overview

- The profession has raised the bar & audits are becoming more thorough
- Increase in audit work (more time = larger fees; i.e 20% to 25% and more)
- The big accounting firms rarely do small audits anymore; many churches are using small and medium sized CA firms for their audits where fees are generally much lower.
- Standards overload & learning the new auditing protocols

Coping with the New Auditing Standards

- Auditing checklists: The CICA's *Professional Engagement Manual* (PEM) (a roadmap of auditing protocol).
- Audit clients are getting lots more questions from their auditors.
- PEM is gradually becoming more user friendly
- CICA publication "*Audit of a Small Entity*"
- The "Compact Audit Package" from the Accounting & Auditing Update PD Course (much shorter checklist for audits of less than 50 hours).

Changes in Emphasis: The New Auditing Standards

- Identify, assess and respond to risk
- Addressing fraud and responding to the risk
- Understanding internal control
- Document, document, document
- Communicating with management and those responsible for oversight (Audit Committee)

Ways to Keep Audit Fees Under Control

- Proper coordination of the year end audit by management (scheduling, planning, fees discussions, preparation requirements, etc).
- Thorough preparation of required year end working papers and documentation
- Provide to the auditors documentation describing the nature of the organization, its programs, business plans, systems, risk assessment procedures, control environment, IT controls and response to fraud questionnaire.
- Follow up with the auditors on their audit approach, identified areas of risk