FINANCIAL STATEMENT REVIEW QUESTIONS FOR BOARD DIRECTORS OF NOT-FOR-PROFIT ORGANIZATIONS

The **Chartered Accountants of** Canada recommend the following questions be used by a Board of Directors in reviewing their financial statements.

Questions to ask about the Statement of Financial Position (Sometimes called the Balance Sheet)

- What are the components of *cash and cash equivalents*? Are any of these at risk of losing value?
- Who owes us the *accounts receivable*? What is the age profile of these accounts? Is there likely to be a problem in collecting these amounts? Has any provision been taken for uncollectable amounts?
- What are the components of *prepaid expenses*? (These often arise from amounts paid for services before they are rendered, like insurance or rent.) Do we have any choice about paying in advance?
- What are the major types of *invested assets (investments)* we hold? Do we have an investment policy? Are the investments in accordance with that policy? What are the prospects for future changes in value and income from these investments? What are the risks associated with these types of investments? Are the risks appropriate for our organization at this time? What happens to these assets if we wind down the organization?
- What are the *capital assets* we own? Where in the organization are they used? How are these assets depreciated or amortized? That is, how do we record the “consumption” or use of these assets over time to reflect their declining useful life and utility to the organization? Does this charge reflect reality? Do we have plans to replace these assets as needed? Are we building a replacement fund to pay for replacements? Do we have appropriate insurance on these assets in case they are damaged or lost?
- To whom do we owe *accounts payable*? Do we pay these amounts on a timely basis, and specifically, in accordance with the payment terms that suppliers or others have specified to avoid further costs?
- What is the renewal date for the *mortgages or loans* outstanding? What new interest rates can be anticipated and how do they compare to the rates we are currently paying? We have a large cash balance — what are the penalties, if any, involved in paying down the mortgage? Should we consider doing so, or do we have plans for the use of the cash balance in the future?
- What is included in *other liabilities*? To whom are these owed and why? When will these amounts come due, and will we have the cash resources to pay them?

A guide to Financial Statement of Non-for-Profit organizations, The Canadian Institute of Chartered Accountants, 2012

Questions to ask about the Statement of Operations (Sometimes called Income Statement)

Questions related to revenues:

- Who provides each category of revenue to the organization and why? Are there restrictions on how these revenues are used?
- What are the costs associated with raising this kind of revenue? Is the effort of raising these funds worthwhile? Are there opportunities to increase revenues from this source?
- In particular, what are our fundraising expenditures as a percentage of funds raised? How does this compare with similar charitable NPOs? Are the fundraising costs warranted, relative to the benefits received? Do we have fundraising protocols that provide guidance to management?
- Who are our competitors for these revenues? Do they represent possible collaborators?
- Have we remained true to our mission in pursuing funding for specific programs, or have we focused too much on acquiring the revenues, even if the activities funded blur our focus (so- called "mission creep")?
- Are there revenues devoted for a specific program, project, or activity? Do these revenues include funding to sustain the organization's overhead (so-called "core funding")? If not, how is infrastructure to be funded as the program, project, or activity places greater stress on it?
- How do we go about soliciting these revenues? Are we adhering to board policies or standards around ethical fundraising activities?
- How secure is each source of revenue for future periods?
- What is the source of investment income? What is our target return on investments? Is this achievable in the current economic climate?
- What is included in other income? Should any of these components be reported separately?

Questions related to expenditures:

- What lies behind the expenditures on salaries and benefits? Where in the organization are employees deployed? What is our compensation policy? When did we last award raises and when is the next scheduled change? What benefits do we provide our employees? How do we handle vacations and vacation pay? How does our compensation stack up in the marketplace? How senior is our staff group? What costs would we incur if we had to lay off staff?
- What explains rent and occupancy costs? What spaces do we rent (or own)? What are they used for? Are they sufficient? What are the major lease/rental terms? How long do we have to move or negotiate a new lease?
- What is the nature of our marketing and communication costs? How do we select communications channels to use, especially new, digital media channels? How do we identify, select, and reach our target audiences?
- What lies behind the charges for equipment rental? Has the "rent vs. buy" analysis been undertaken?
- What is the policy for amortization of capital assets?
- What is included in other expenses? Should any of the items be disclosed separately?

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Questions to ask about the Proposed Budget and the budgeting process:

- What are the key assumptions behind the estimates of revenues and the estimates of expenditures for the coming year?
- Are there significant differences between the current year-end projections and the budget estimates for the upcoming year? If so, what are the explanations for these differences?
- What is the plan for staffing levels and staff compensation for the coming year?
- Are there any significant changes planned for programs and services inherent in the budget?
- Is the budget fully in accord with our strategic plan?
- What “scenarios” have been considered in the budget planning process?
- How much of a cushion do we have against unanticipated adverse events?

Questions to ask about the Internal Financial Statement (budget to actual comparisons)

- Are the variances related to revenues or to expenditures or to both?
- What is the explanation for the significant variances (both “over” and “under”)?
- Are variances arising from external factors beyond the organization’s control (e.g., an unanticipated increase in utility usage or utility rates)?
- How realistic are the projections to year-end? What are the assumptions that underpin those projections?
- Is there a need for action now related to our operations to deal with the variances and/or projections to year-end?

Questions to ask about the Draft Audited Statements:

- Did the auditor initiate any significant changes to management’s year-end financial information prior to issuance of the audit opinion and approval of the financial statements? (In the language of accountants, did the auditor require significant adjustments through “journal entries” to the statements originally prepared by management?)
- Did the auditor find any weaknesses in internal controls or accounting policies?
- Did the auditor have any concerns about the activities of the organization that have impacted on the financial results?
- Did management make significant estimates in the financial statements and did the auditor have any concerns about them?
- Were there any issues that might have caused the auditor to issue a qualified report?

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