

# ACCOUNTANTS ON BOARD

A guide to becoming a director of a not-for-profit organization



Written by Dan H Cornacchia, FCA

# ACCOUNTANTS ON BOARD

---

A guide to becoming a director of a not-for-profit organization

---

Written by Dan H Cornacchia, FCA



# Preface

---

The Risk Oversight and Governance Board of the Canadian Institute of Chartered Accountants commissioned this briefing to assist accountants who are considering joining the board of a Not-for-Profit Organization (NPO).

Directorship of a not-for-profit organization can be a highly rewarding experience, both personally and professionally. Accountants will have the opportunity to strengthen their leadership skills, gain valuable governance expertise, expand their professional networks, and use their financial and business acumen in support of a cause in which they believe.

Accountants have a great deal to offer not-for-profit organizations, and will find that their expertise is highly valued. By participating in the governance of a not-for-profit organization, accountants will have a chance to make a meaningful difference in their community.

This document explores the rewards, responsibilities and other considerations related to serving as a director of a not-for-profit organization. While the document focuses specifically on accountants, it will be useful to anyone considering joining the board of a not-for-profit organization.

The Risk Oversight and Governance Board acknowledges and thanks the members of the Not-for-Profit Organizations Task Force for their invaluable advice, Dan Cornacchia, FCA, who wrote this briefing under their guidance, Ernst & Young's Community Engagement Team who provided access to their materials and reviewed an early draft of the document, and the CICA staff who provided support to the project.

**Giles Meikle, FCA**

Interim Chair, Risk Oversight and Governance Board

**Written by**

Dan Cornacchia, FCA

**Project direction by**

Beth Deazeley, LL.B., Principal, Risk Oversight and Governance, CICA



## Risk Oversight and Governance Board

### **Giles Meikle, FCA, Interim Chair**

Alex Guertin, CA

Bryan Held, FCA, ICD.D

Andrew J. MacDougall, LL.B.

Michael B. Meagher, FCA

Sue Payne, FCA, C.Dir

Debi Rosati, FCA, ICD.D

Catherine Smith, ICD.D, FICB

### **Directors Advisory Group**

Giles Meikle, FCA, Chair

Hugh Bolton, FCA

John Caldwell, CA

William Dimma, F.ICD, ICD.D

Gordon Hall, FSA, ICD.D

Carol Hansell, LL.B.

Ronald W. Osborne, FCA

Thomas C. Peddie, FCA

Guylaine Saucier, CM, FCA

Hap Stephen, CA

Peter Stephenson, PhD, ICD.D

### **Not-for-Profit Organizations Task Force**

Catherine Smith, ICD.D., F.I.C.B., Chair

Lyn McDonell, CAE, C.Dir

Susan Manwaring, LL.B.

Giles Meikle, FCA

Larry Murray, FCA

S. Harlan Schonfeld, CA, CIRP

Diane Sinhuber, CA

### **CICA Staff**

Ian Hague, CA

Director, Guidance and Support

Gigi Dawe

Principal, Risk Oversight and Governance

Beth Deazeley, LL.B.

Principal, Risk Oversight and Governance

# Table of Contents

---

Introduction .....	1
Why Join the Board of a Not-for-Profit Organization? .....	3
Understanding the Not-for-Profit Sector.....	5
Forms of Organization .....	7
Operations .....	9
Size and scope.....	9
Differences between the for-profit and not-for-profit sectors.....	9
Governance and the Role of Directors .....	13
The role of the board.....	14
Legal and fiduciary duties of board members .....	15
Conflicts and independence .....	15
Board member responsibilities.....	16
Director liability.....	17
Differences in governance between the for-profit and not-for-profit sectors .....	18
Additional expectations of not-for-profit directors.....	19
Roles for Accountants.....	21
General board roles .....	22
Treasurer .....	23
Audit and finance committees.....	25
Fulfilling multiple financial roles.....	27
Finding the Right Not-for-Profit Organization .....	29
Conclusion.....	33



## Introduction

---

There are over 160,000 not-for-profit organizations (NPOs) in Canada.<sup>1</sup> They address a broad range of needs and interests in areas including arts and culture, sports and recreation, education, hospitals and health services, human and social services, environment, civil rights and religion, as well as business and professional associations.

Not-for-profit organizations range in size, scope and resources from small, grassroots all-volunteer groups to large, well-resourced educational, health and international agencies.

The board of directors is at the top of the organizational structure. It is responsible for the oversight and strategic direction of the organization. Directors have a fiduciary role as stewards of the organization's assets and are also responsible for hiring and evaluating the CEO or Executive Director. In some organizations, directors may also be referred to as trustees, governors, etc.

Directors who have skills in accounting, financial management and financial reporting are essential in order for the board of directors to fulfill its oversight role. However, many organizations struggle to recruit directors with the necessary expertise. In the National Survey

---

<sup>1</sup> *Cornerstones of Community: highlights of the National Survey of Nonprofit and Voluntary Organizations: 2003 revised.* This figure refers to incorporated organizations only.



## 2 Accountants on Board

of Nonprofit and Volunteer Organizations, over half of the respondents reported difficulties in obtaining board members.

Accountants have a broad range of skills that can be leveraged for the benefit of not-for-profit organizations. This document is designed to help educate accountants about the rewards, responsibilities and other considerations related to serving as a director of a not-for-profit organization.



## Why Join the Board of a Not-for-Profit Organization?

---

Serving as a director of a not-for-profit organization can provide numerous benefits to the director, the organization and the larger community. Many people choose to get involved with an organization whose mission relates to their personal values.



Supporting a worthy cause and 'giving back' to the community are prime motivating factors for board involvement. While a personal interest can help inspire and keep a director committed, board members must nevertheless approach their governance responsibilities with an objective view and a professional attitude.

Many not-for-profit organizations wish to increase the number of directors with business acumen on their boards in order to bring more strategic thought, improved oversight, greater operational experience, stronger financial expertise and improved access to funding sources. Accountants who serve as directors can leverage their education, training and experience to benefit their organizations either by fulfilling a specialized financial role on the board or by utilizing their general business acumen.

Membership on the board of a not-for-profit organization provides the opportunity to develop both personal and professional skills while gaining valuable experience. Accountants serving as volunteer directors will gain experiential learning and skill development in areas including governance, risk oversight, strategy, leadership, marketing, communication, negotiating, team-building and conflict resolution. In addition, they will have the chance to build new personal relationships and broaden business networks.

The decision to volunteer as a member of the board of directors of a not-for-profit organization is one that should be made thoughtfully, as it involves a substantial commitment. A volunteer board position is an honor. In addition to its rewards, it has important responsibilities.

## Understanding the Not-for-Profit Sector

---

Before joining the board of a not-for-profit organization, accountants should have an understanding of the not-for-profit sector, the differences between the for-profit and not-for-profit fields, and the responsibilities of not-for-profit directors.





# Forms of Organization

---

There are a wide variety of organizational structures in the Canadian not-for-profit sector. Many not-for-profit organizations are incorporated, while others are structured as unincorporated associations or trusts. The organizational structure will affect the powers, duties and liabilities of the organization itself as well as its directors.

## Corporations<sup>2</sup>

- A corporation is an entity recognized by the law as having its own separate identity. Corporations are governed by legislation, which also sets out certain duties, responsibilities and liabilities of the corporation's directors. Not-for-profit organizations may be incorporated pursuant to federal or provincial corporations legislation or established by a special statute.
- Not-for-profit corporations are generally incorporated as non-share corporations so that instead of shareholders, not-for-profit corporations have members.

## Unincorporated Associations

- An unincorporated association is a group of individuals that come together for a common purpose. The association has no legal identity separate from the people who make up the association.
- The individuals involved in an unincorporated association will often write a contract (sometimes called a constitution) to set out how the organization is to be managed and/or operated.

## Trusts

- Trusts are sometimes used for charitable purposes so that a group of persons (trustees) holds charitable property which must be used for charitable purposes (or public benefit).
- The powers and duties of the trustees are spelled out in the trust document and in provincial trustees' legislation.

Approximately half of the not-for-profit organizations operating in Canada are registered as charities under the *Income Tax Act*. Status as a registered charity can provide benefits to the organization, but also imposes additional obligations on the organization and its directors.

---

2 This discussion is based on material from the Introduction to the CICA document *20 Questions Directors of Not-for-Profit Organizations Should Ask about Fiduciary Duty* authored by Jane Burke-Robertson.



# Operations

---

## Size and scope

Not-for-profit organizations vary widely in size. At one end of the spectrum are the small organizations, which may be entirely volunteer-run or have only a few paid staff. They may have no physical business premises, limited revenues and little organizational structure. At the other end of the spectrum are not-for-profit organizations which dwarf many public companies, employing hundreds or thousands of people out of numerous locations and managing substantial revenues and investments.

In terms of scope, many Canadian not-for-profit organizations operate at a local or regional level. Others, however, have a national presence, or may form part of a larger national or international organization.

## Differences between the for-profit and not-for-profit sectors

There are some important differences between the for-profit (or business) and not-for-profit sectors. Accountants have many important skills which are learned and honed in the business world and can be of great value to not-for-profit organizations. However, to avoid 'culture shock', accountants interested in joining the board of a not-for-profit organization should be aware of some key differences between the two sectors which will affect the way in which skills and expertise can be utilized to best serve the organization.

### Goals and Objectives

The most obvious difference between the business sector and the not-for-profit sector is the motivating factor. The goals of organizations in the not-for-profit sector generally focus on providing services or benefits to members or clients, or furthering a cause. The objectives will generally be set out in the documents which establish the organization (letters patent, by-laws, constitution, etc). Any



excess revenues are not withdrawn from the organization for the benefit of its owners, but rather are retained and used to further the organization's stated purpose.

### **Funding**

Not-for-profit organizations may have a variety of funding sources. Some are funded largely by grants from government or foundations. Others solicit funds from the public. Funds obtained in this manner may be subject to restrictions on how they may be used. In addition, some not-for-profit organizations (such as professional associations) may be funded by member fees, and others obtain some or all of their funding from fees for products or services that they provide.

### **Stakeholders**

Not-for-profit organizations work with a wide range of stakeholders, some of which are particular to the not-for-profit sector. They may include clients or customers served by the organization, members or supporters of the organization, paid staff, volunteers, community partners, funding agencies, donors, government ministries, business sponsors, and the community in which the organization operates. Good stakeholder relations are critical to success, and require careful management, as diverse stakeholders may have different (and potentially conflicting) expectations of the organization.

### **Use of Volunteers**

Many not-for-profit organizations rely extensively on volunteers, who may be involved in the operations of the organization or in its management, as well as on the board. The vast majority of directors of not-for-profit organizations serve as volunteers. In many cases, particularly those of registered charities, directors are prohibited from receiving remuneration for their services as directors.<sup>3</sup>

### **Key Performance Indicators**

Performance measures used by boards and other stakeholders of not-for-profit organizations are different than those applicable in the for-profit sector. One common performance measure is the ratio of administration expenses versus total or program expenses, which

---

<sup>3</sup> In Ontario, directors of charities may not be paid for services provided outside the scope of their capacity as directors unless permitted by a court order made under section 13 of the *Charities Accounting Act*.

is designed to evaluate the organization's efficiency in using funds for programs rather than administrative functions. In addition, key performance measurements for charities include the ratio of fund-raising expenses as compared to fund-raising revenues.

### Accounting Standards

The existing accounting standards used by the not-for-profit sector, those set out in the Canadian Institute of Chartered Accountants Handbook – Accounting, differ in some respects to those used by the for-profit sector. The major differences include the following:

- use of the deferral method or restricted fund method of accounting for contributions;
- revenue recognition for endowment, restricted and unrestricted contributions;
- recognition and measurement of capital assets and contributed materials and services;
- presentation and disclosure of related entities and related party transactions; and
- disclosure of allocated expenses.

Accounting standards applicable to not-for-profit organizations are expected to change in the future as many for-profit businesses transition to International Financial Reporting Standards.

Not-for-profit organizations will have the choice of adopting International Financial Reporting Standards or following new standards applicable specifically to NPOs. Choosing the latter option is not expected to result in a significant change to the financial reporting practices of most not-for-profit organizations.

Alternatively, not-for-profit organizations controlled by a government may be directed to adopt financial reporting standards applicable to the public sector. These financial reporting standards would be supplemented by guidance specific to not-for-profit organizations. Some universities, colleges, hospitals and arts organizations might be subject to these changes depending on whether or not a government has the power to govern their financial and operating policies.<sup>4</sup>

---

<sup>4</sup> Exposure drafts outlining proposed changes to accounting standards for NPOs were released on March 3, 2010. For more information, please see [www.cica.ca/transition](http://www.cica.ca/transition)

**Registered Charities**

Over half of the not-for-profit organizations in Canada (approximately 85,000) are registered as charities for the purposes of the *Income Tax Act*. Registered charities and their donors receive tax relief under the Act. The Charities Directorate of the Canada Customs and Revenue Agency is responsible for registering qualifying organizations as charities.

Registered charities are exempt from income tax, can issue tax receipts, and may be eligible for a GST/HST rebate. To qualify for registration, an organization must be established and operated for charitable purposes and it must devote all of its resources to charitable activities, including making gifts to qualified donees. The charity must be established and resident in Canada, and cannot use its income to benefit its members. A charity also has to meet a public benefit test.

Registered charities are subject to additional legal and reporting requirements. A charity:

- may only carry on charitable activities or make gifts to qualified donees;
- must restrict political activities and cannot carry on unrelated business activities;
- must comply with strict rules around the issuance of donation receipts;
- must spend the minimum amount on its own charitable activities or on gifts to qualified donees;
- should follow guidelines on fund-raising expenses; and
- must file a prescribed annual information return.

## Governance and the Role of Directors

---

Governance of a not-for-profit organization is similar in principle to that of a for-profit corporation. The board has overall responsibility for overseeing the long-term direction of the organization in order to achieve its purpose.



## The role of the board<sup>5</sup>

The role of the board of directors is to oversee the organization's affairs within the framework of applicable laws and standards. The board of directors oversees the organization's mission and strategic direction, its financial management, its sustainability and its relations with stakeholders.

The major duties of the board include:

- overseeing the development of, and approving a long-term corporate plan;
- approving annual budgets and operating plans;
- approving the organizational mission, values framework and operating principles;
- governing the organization through policies and objectives which are formulated with the CEO or Executive Director and staff, approved by the board, and reviewed periodically;
- selecting, supporting, and where necessary, replacing the CEO or Executive Director, including the regular review of performance on the basis of a specific job description and approved objectives;
- overseeing the funding plan in place to support the organization's operations and programs;
- accounting to stakeholders for the operation of the organization and the use of donated funds;
- overseeing the management of the organization's resources;
- overseeing compliance with applicable laws and regulations;
- approving the policy framework within which the organization's human resources (both paid and volunteer) will be managed;
- overseeing the provision of programs and services; and
- working with management as necessary to represent the organization and serve as an advocate in the community.

---

5 This discussion is based on Sample Governance Policies, Copyright © 2002 Mel Gill, compiled for the Institute on Governance.

## Legal and fiduciary duties of board members<sup>6</sup>

Directors in both the corporate and not-for-profit sectors have important legal and ethical responsibilities that cannot be delegated. The most fundamental of these responsibilities is the duty to act with a view to the best interests of the organization at all times. This is known as “fiduciary duty”.

Directors’ duty of care requires them to make informed, independent decisions. They must exercise the degree of skill and diligence that would be expected from a reasonably prudent person in the circumstances. Professionals, such as accountants, serving on the boards of organizations incorporated under certain provincial statutes may be held to a higher standard, which would require them to exercise the degree of care that a reasonably prudent accountant would exercise. They must do their personal best with regard to their education, abilities and experience.

Directors of a charity may also be held to a higher standard, which would require them to exercise the degree of skill and prudence expected of a reasonable business person caring for his or her personal affairs.

## Conflicts and independence

Directors’ duty of loyalty requires them to act honestly and in good faith with a view to the best interests of the organization. Directors should not profit from their office and should avoid situations in which their duty to the organization conflicts with their own interests or duties to others.

A conflict of interest can develop in two general ways:

- A personal conflict between the director’s duty to act in the best interest of the organization and the director’s own self interest;
- A conflict of duties that the director owes to the organization and to another organization.

Before joining the board of a not-for-profit organization, directors should consider whether their personal interests or duties owed to

---

6 This discussion is based on the CICA document *20 Questions Directors of Not-for-Profit Organizations Should Ask about Fiduciary Duty*, authored by Jane Burke-Robertson.

another organization might lead to a conflict of interest. Once on the board, should a conflict of interest arise, there are particular steps which directors should follow, which include immediately declaring the conflict and abstaining from voting on the issue.<sup>7</sup>

Accountants who provide audit services must adhere to requirements of legislation, standards of their governing body and rules of their audit firm with respect to independence. Accountants generally cannot be a director of any entity that is an audit client of their firm. In addition, accountants should be alert to business relationships or other factors that might appear to put their independence at issue.

## Board member responsibilities<sup>8</sup>

In order for a board to function effectively as a whole, each director must be an active participant. Board members must perform their duties diligently and conscientiously. They are responsible for:

- being informed about the articles of incorporation and legislation which affects the organization, as well as its by-laws, mission, values, code of conduct, and relevant policies;
- being aware of the activities of the organization in the community, as well as general trends in the sector in which it operates;
- attending board meetings regularly, serving on committees of the board and contributing from personal, professional and life experience to the work of the board and the success of the organization;
- clearly expressing and constructively discussing concerns or opposition to board decisions at the time the issue is being considered, and exercising their vote unless a conflict of interest exists;
- maintaining solidarity in support of decisions made by the board in good faith after reasonable consideration;
- working effectively and respectfully with staff on committees or other work of the board, while knowing and respecting the distinction in the roles of board and staff; and
- watching for and declaring any apparent or real conflict of interest in accordance with the organization's policies.<sup>9</sup>

---

7 For more information on a director's obligation when a conflict of interest arises, see the CICA publication *20 Questions Directors of Not-for-Profit Organizations Should Ask about Fiduciary Duty*.

8 This discussion is based on Sample Governance Policies, Copyright © 2002 Mel Gill, compiled for the Institute on Governance.

9 See footnote 7.

## Director liability

Service as a director of a not-for-profit organization carries with it the potential for personal liability:

- Directors who breach their fiduciary duties may be personally liable if the organization suffers a loss that can be attributed to the actions or omissions of the directors.
- Directors may be liable for torts committed in their role as directors (i.e. a negligent or intentional civil wrong that injures someone in some way).
- There are also a number of statutes which may impose liability on directors for failures in areas including government reporting requirements, unpaid wages and source deductions, environmental mishaps, occupational health and safety, etc. These potential liabilities will depend in part on the type of organization and the applicable legislation.

Much of the potential liability to which directors are subject can be minimized by diligence in the fulfillment of their duties. Additional protection for directors is available in the form of indemnities and insurance.<sup>10</sup>

### Indemnity

Directors may have the right to be reimbursed by the organization for the amount of a judgment or similar award resulting from civil, criminal or administrative proceedings arising out of acts or omissions while acting within the capacity of a director. This includes the cost of defending the director but not non-financial items such as pain and suffering or loss of reputation. A director's right to indemnification will be determined by the governing legislation as well as the by-laws of the organization and any contract between the director and the organization. In addition, there are some limitations on the ability of registered charities to indemnify directors.

### Insurance

Directors' and officers' (D&O) liability insurance is an important source of protection to directors in the exercise of their duties, and can protect directors in situations where indemnity may

---

<sup>10</sup> The following discussion is based on the CICA documents *20 Questions Directors Should Ask about Directors' and Officers' Liability Indemnification and Insurance*, authored by Richard Berrow, and *Liability Indemnification and Insurance for Directors of Not-for-Profit Organizations*, authored by Brian Rosenbaum.



not (for example, where indemnity is not permitted or where the organization does not have funds available to indemnify directors). Most D&O policies cover claims arising from acts or omissions while acting in the capacity of director, or claims against a director as a result of their position. These policies typically cover damages and defence costs. Directors should review these policies carefully.

## Differences in governance between the for-profit and not-for-profit sectors

Fundamentally, governance is governance — there is no substantive difference in good governance between the corporate and not-for-profit sectors. Many not-for-profit organizations have governance practices that equal the best in the corporate sector.

There is more variation in governance within a sector (business or not-for-profit) than there is between sectors. In fact, a director of a large public company would probably feel more at home on the board of a large not-for-profit than on the board of a small, start-up business.

The fiduciary duties, standards of care and potential liability of directors of not-for-profit organizations are generally no less stringent than those in the for-profit sector. In some cases, expectations regarding diligence, integrity, performance and stakeholder accountability are higher in the not-for-profit sector.

There may be differences in terms of board culture between for-profit and not-for-profit organizations. These may be due to the nature of the not-for-profit sector itself, and also due to the volunteer status of directors. Not-for-profit boards are often very diverse, and there may be a wide range of skills and backgrounds represented. Many members may not have business backgrounds, and some may not have previous board experience. However, experience shows that volunteer board members are just as committed to the vision, mission and goals of their organizations as corporate directors.

## Additional expectations of not-for-profit directors

While overall principles of governance vary little between the for-profit and not-for-profit sector, accountants joining the board of a not-for-profit organization may find that there are some differences in the roles and responsibilities of directors on not-for-profit boards as compared to their corporate colleagues.

### Operational Responsibilities

The distinction between the governance role of the board and the operational role of staff is often less clear in not-for-profit organizations — particularly smaller ones with few staff. “Working boards”, in which board members take on some degree of operational responsibility, are common. The precise division of responsibility between the board and staff will depend on the size and complexity of the organization. It may also change as the organization evolves, and it will be influenced by the experience and skills of the directors, CEO and other staff. In smaller organizations or those without experienced staff, directors may be more actively involved. This may occur through committee work or through officer roles.

### Officer Positions

Many not-for-profit organizations are required by law or their governing documents to designate officers. Officer positions are usually Chair/President, Vice-Chair, Treasurer and Secretary. On working or “hands-on” boards, some officers may have some operational duties. This will be discussed further in the context of the Treasurer position below.

### Fundraising

Fundraising is a common expectation of directors on not-for-profit boards. It may take a variety of different forms, such as participation in fundraising initiatives, attendance at major fundraising events, use of personal networks to solicit donations, or making a personal financial contribution to the organization.



## Roles for Accountants

---

Accountants are frequently sought after as not-for-profit directors due to their financial expertise. Not-for-profit organizations recruiting an accountant onto the board will often request that the accountant take on a role (or roles) which will utilize that expertise. Of course, it is up to the potential director to decide whether this is a role that they wish to take on, and be clear regarding their intentions.



## General board roles

Whether or not an accountant who joins the board of a not-for-profit organization assumes a position such as Treasurer or member of the audit and/or finance committee, s/he has an important role to play as a general board member, and his/her skills, training and experience as an accountant will contribute to that role as well.

Individuals on the boards of not-for-profit organizations have varying degrees of financial literacy. In some cases, the accountant may be the only person on the board that is a financial expert. This financial expertise can be applied to improve the board's understanding of financial matters and the overall performance of the board. On the other hand, there is a risk that other board members may place excessive reliance on the skills, knowledge and recommendations of the accountant on the board.

One of the greatest benefits that an accountant can bring to the board of a not-for-profit organization is the ability to explain financial information clearly to people who don't have a financial background, and effectively "demystify" the organization's financial statements to its board and members. Accountants can help other directors better analyze and understand the organization's financial plans, budgets and statements, as well as performance reports and variance explanations. Accountants can help build up the confidence of board members and staff and by doing so, encourage them to become more involved in the review of the organization's finances.

Accountants bring many skills to the board table and can be strong contributors in many areas of the board's mandate in addition to financial roles. The accountant's business training and experience may be helpful in increasing the board's ability to identify and analyze trends and risks, improving financial presentations to funders and other stakeholders, identifying opportunities for the organization and securing sources of funding. Business skills can also be a great asset to the board in areas such as strategy, executive compensation and the oversight of risk.

## Treasurer

Accountants are often asked to serve as the Treasurer of a not-for-profit organization. As discussed above, the Treasurer is an officer of the organization, and is often a member of the board of directors, although this is not always the case. The specific roles and responsibilities will depend on the particular organization.

In general terms, the role of the Treasurer is to supervise the organization's financial condition and report on it to the board.<sup>11</sup> The duties of the Treasurer include ensuring that:

- the books of account and accounting records of the corporation are kept as required by law,
- proper financial statements are submitted to the board,
- the accounts of the organization are audited as required by the auditor appointed by the members, and presented to the members at the Annual General Meeting, and
- the annual budget is prepared and submitted to the board.

In the for-profit sector, the responsibilities of a Treasurer would typically include cash and liquidity risk management, as well as investing and funding activities of the corporation. The Treasurer of a not-for-profit organization generally has a wider span of management responsibilities and may be involved in some or all of the following functions:

- preparing financial plans and operating budgets
- managing a broad spectrum of risks
- maintaining a system of internal controls
- negotiating contracts
- managing relationships with third party suppliers
- depositing cash receipts
- approving expenditures
- investing funds
- preparing and signing cheques
- maintaining the books and records
- analyzing the financial results and performance of the organization

---

<sup>11</sup> The *Canada Not-for-Profit Corporations Act* and the draft *Ontario Not-for-Profit Corporations Act* provide that directors who rely in good faith on the financial statements of the corporation represented to them by an officer (such as the Treasurer) as fairly reflecting the financial condition of the organization will have satisfied their duty to the corporation and will therefore have a defence to liability. However, directors should still question the financial statements where circumstances warrant.

- preparing financial statements, tax returns and other filings
- reporting to the board and other stakeholders on financial matters
- preparing for the annual audit
- supervising, coaching and/or training staff on financial matters.

The extent of involvement in the day-to-day financial workings of the organization will depend on the size and complexity of the organization as well as the number and sophistication of the organization's staff. For example, in a small not-for-profit organization with few staff, the Treasurer may be actively involved in performing many of these functions and assisting in the management of the organization day to day.

In an organization with some staff and resources, the Treasurer may be able to delegate many of the basic day to day functions to the staff. As the senior financial officer, the Treasurer will still have the overall responsibility for these functions and will likely be active in managing the more challenging and complex functions. The Treasurer would also typically provide guidance and support to the CEO or Executive Director and may also supervise, coach and train staff on financial matters.

In a larger, well-staffed NPO, the Treasurer may be able to delegate substantially all of the functions to the staff and focus principally on the planning, supervision and review of work performed by others. However, the Treasurer maintains the overall responsibility for these functions.

## Audit and finance committees

Accountants who join the board of directors of a not-for-profit organization are also frequently asked to sit on (or chair) the Audit and/or Finance Committee. Many organizations have a combined committee, but there are benefits to having two separate committees.

### Audit Committee<sup>12</sup>

The Audit Committee is responsible for overseeing the organization's financial reporting, audit activities and risk management and internal controls. Its duties include:

#### Financial Reporting

- overseeing and approving the selection of accounting policies
- reviewing and discussing interim financial statements with management
- reviewing financial reports prepared for members, funders and the public

#### Audit

- reviewing and recommending to the full board the approval of the audited financial statements
- approval of audit services and management of the auditor relationship

#### Risk Management and Controls

- reviewing the organization's financial risk management policies and processes
- ensuring the establishment of an effective system of internal controls to mitigate financial risks to the organization

---

12 This discussion is based on the Deloitte publication *Not-for-Profit Audit Committees*.



## Finance Committee

The Finance Committee is responsible for overseeing the preparation of the annual budget and financial statements, overseeing the administration, collection and disbursements of the financial resources, and advising the board with respect to significant financial decisions. Its duties include:

### Budget and Financial Statements:

- ensuring the preparation of the annual budget and financial statements
- reviewing budgets, strategy and fundraising plans to ensure adequate funding for operations

### Stewardship of Financial Resources:

- ensuring that appropriate financial policies and practices are in place
- reviewing and recommending investment strategies
- reviewing and recommending lending/borrowing practices
- reviewing financial activity and advising the board regarding any concerns with the financial stability or practices of the organization

## Combined Audit and Finance Committees

The Nonprofit Risk Management Center has identified the following areas of shared responsibility between the audit and finance committees of not-for-profit boards:<sup>13</sup>

- The finance committee ensures that budgets and financial statements are prepared; the audit committee has oversight responsibility for ensuring that reports are received, monitored, and disseminated appropriately.
- The finance committee monitors financial transactions; the audit committee makes sure things are done according to policy and with adequate controls.
- The finance committee provides guidance about what can be done; the audit committee ensures that independent oversight occurs.

---

13 *What's the Difference. Audit Committee v. Finance Committee.* NonProfit Risk Management Center [www.nonprofitrisk.org](http://www.nonprofitrisk.org)

Although many areas of responsibility are shared, the role played by the audit and finance committees is very different, as the role of the finance committee is generally forward-looking: authorizing policies, budgets and courses of action; whereas the role of the audit committee involves reviewing activities undertaken to ensure that appropriate policies and procedures were followed.

## Fulfilling multiple financial roles

Since many not-for-profit organizations struggle to recruit board members with financial expertise, the numerous finance-related roles on the board are frequently performed by only a few individuals. This can raise the potential for confusion and/or conflict between roles. While in many cases, particularly in smaller organizations, the accountant or other financial expert on the board may have little choice but to fulfill various functions, they should remain conscious of the different roles they are required to play and whether they are management or oversight functions. Boards and directors should be aware that when financial roles are combined, a level of oversight and review is generally removed.

The primary function of the board of directors is to oversee rather than manage the organization. The ability to provide objective oversight may be impaired when the Treasurer's role involves numerous management-level responsibilities, and yet the Treasurer is a member of the board, since that person will be overseeing their own work. The more engaged the individual becomes in management functions, the more their ability to exercise independent oversight will be impaired. This challenge is particularly acute when a Treasurer with management responsibilities also chairs the audit committee. In this situation, one level of checks and balances around the organization's finances is effectively removed. The board should consider whether another person could fulfill one of the roles and duties should be defined in a clearly written mandate.



## Finding the Right Not-for-Profit Organization

---

There is a significant commitment of time and energy involved in joining the board of a not-for-profit organization. Taking the time to research the opportunities available will help optimize both the experience of the director and the benefit to the organization.



In order to determine whether an organization is a good fit, potential directors should consider the factors set out below.

### Mission fit

Potential board members should review the organization's vision, mission, and values to determine whether they align with their personal interests and beliefs. While all directors won't necessarily have a passion for the cause, they should certainly support the cause.

### Organization fit

It is important to consider the size, age, and stage of development of the not-for-profit organization. Different skills are required to govern a small, recently-established organization without any paid staff as opposed to a larger, long-standing and well-resourced organization with established policies and procedures. Accountants should consider whether their particular skills and experience are better suited to an organization in a high growth expansion phase, one that is in a stable period or one that needs refocusing and revitalization.

### Board fit

The governance model and board culture will also influence directors' roles and responsibilities. A grassroots all-volunteer organization where directors are required to roll up their sleeves and do a little of everything provides a very different board experience than an established organization with structured management where the board's role is limited to strategic guidance and oversight. Potential directors should also consider the board in terms of the number of directors, their business acumen, skills and experience, the type and level of sophistication of governance, and the relationship and communication process among the directors and between the board and the organization's staff.

## Expectations and time commitment

Potential directors should ensure that they have a clear understanding of the organization's expectations of directors in terms of time commitment and responsibilities. Time commitments can go well beyond simple attendance at meetings to include preparation for meetings, committee service, participation in orientation, educational and strategic planning sessions, working with staff, availability for unscheduled meetings and phone calls and attendance at events.

Some of the above information can be obtained by background research. Other information must be provided by the organization.

Information which should be provided to new and potential directors includes the information set out below.<sup>14</sup>

### Information on the organization:

- vision, mission, values and code of conduct
- board and committee mandates
- programs and activities
- financial statements, strategy, plans and major areas of risk and opportunity
- stakeholders and accountabilities
- board members and senior staff

### Information on being a director:

- director role descriptions
- the term of service, term limits (if applicable) and the expected number of terms to serve
- time commitments
- dates, locations and duration of scheduled meetings
- committee service requirements
- expectations regarding personal donations to the organization and participation in fundraising
- orientation and continuing education opportunities
- reimbursement of permitted expenses
- information regarding indemnities and directors' and officers' liability insurance

---

14 This list is based on one appearing in Question 9 of the CICA document *20 Questions Directors of Not-for-Profit Organizations Should Ask about Board Recruitment, Development and Assessment*, authored by Richard Leblanc and Hugh Lindsay.

The not-for-profit sector in Canada is large and diverse. Finding the right opportunity can be as challenging and time consuming as finding a new job. However, there are several avenues to pursue:

- directly contacting an organization of interest;
- starting with a small organization and/or volunteering in a non-director capacity and working up to the board;
- using personal and professional networks to identify opportunities;
- contacting search firms and other organizations that specialize in recruiting in the not-for-profit sector; or
- reviewing not-for-profit board member postings through organizations such as Charity Village at [www.charityvillage.ca](http://www.charityvillage.ca), the CICA Directors Source at [www.directorssource.com](http://www.directorssource.com) or local volunteer organizations.

## Conclusion

---

Service as a director of a not-for-profit organization can bring many benefits both to accountants and to the organizations on whose boards they serve. By taking the time to learn about the not-for-profit sector and identify an appropriate organization, potential board members can ensure that their directorship is an enriching and rewarding experience both for themselves and for the not-for-profit organization.







# Where to find more information

---

## The Not-for-Profit Director Series

### NPO 20 Questions Series

20 Questions Directors of Not-for-Profit Organizations Should Ask about Board Recruitment, Development and Assessment

20 Questions Directors of Not-for-Profit Organizations Should Ask about Fiduciary Duty

20 Questions Directors of Not-for-Profit Organizations Should Ask about Governance

20 Questions Directors of Not-for-Profit Organizations Should Ask about Risk

20 Questions Directors of Not-for-Profit Organizations Should Ask about Strategy and Planning

Liability Indemnification and Insurance for Directors of Not-for-Profit Organizations

### NPO Director Alerts

Pandemic Preparation and Response — questions for directors to ask

Increasing Public Scrutiny of Not-for-Profit Organizations — questions for directors to ask

New Rules for charities' fundraising expenses and program spending — questions for directors to ask

[www.cica.ca/npo](http://www.cica.ca/npo)

## The Director Series

### The 20 Questions Series

20 Questions Directors and Audit Committees Should Ask about IFRS Conversions (Revised ed)

20 Questions Directors Should Ask about Building a Board

20 Questions Directors Should Ask about CEO Succession

20 Questions Directors Should Ask about Codes of Conduct

20 Questions Directors Should Ask about Crisis Management

20 Questions Directors Should Ask about Crown Corporation Governance

20 Questions Directors Should Ask about Director Compensation

20 Questions Directors Should Ask about Directors' and Officers' Liability Indemnification and Insurance

20 Questions Directors Should Ask about Executive Compensation

20 Questions Directors Should Ask about Governance Assessments

20 Questions Directors Should Ask about Governance Committees

20 Questions Directors Should Ask about Internal Audit (2<sup>nd</sup> ed)

20 Questions Directors Should Ask about IT

20 Questions Directors Should Ask about Management's Discussion and Analysis (2<sup>nd</sup> ed)

20 Questions Directors Should Ask about Responding to Allegations of Corporate Wrongdoing

20 Questions Directors Should Ask about Risk (2<sup>nd</sup> ed)

20 Questions Directors Should Ask about the Role of the Human Resources and Compensation Committee

20 Questions Directors Should Ask about their Role in Pension Governance

20 Questions Directors Should Ask about Special Committees

20 Questions Directors Should Ask about Strategy (2<sup>nd</sup> ed)

## Director Briefings

Climate Change Briefing — Questions for Directors to Ask

Long-term Performance Briefing — Questions for Directors to Ask

Controlled Companies Briefing — Questions for Directors to Ask

## Director Alerts

Fraud Risk in Difficult Economic Times — questions for directors to ask

Human Resource and Compensation Issues during the Financial Crisis — questions for directors to ask

The Global Financial Meltdown — questions for directors to ask

Executive Compensation Disclosure — questions directors should ask

The ABCP Liquidity Crunch — questions directors should ask

## The CFO Series

Deciding to Go Public: What CFOs Need to Know

Financial Aspects of Governance: What Boards Should Expect from CFOs

How CFOs are Adapting to Today's Realities

IFRS Conversions: What CFOs Need to Know and Do

Risk Management: What Boards Should Expect from CFOs

Strategic Planning: What Boards Should Expect from CFOs

[www.rogb.ca](http://www.rogb.ca)

## Additional Information on Not-for-Profit Organizations

### Other references

Bourgeois, Donald J. *Charities and Not-for-Profit Administration and Governance Handbook* (in association with Canadian Centre for Philanthropy), 2<sup>nd</sup> Ed., 2009.

Broder, Peter, ed., *Primer for Directors of Not-for-Profit Corporations*, Industry Canada, 2002.

Certified General Accountants of Ontario, *Grassroots Governance: Governance and the Non-Profit Sector*. Certified General Accountants of Ontario, 2008.

Corbett, Anne, Mackay, James M., and Cross, Pamela L., *Guide to Good Governance: Not-for-Profit and Charitable Organizations*. Governance Centre of Excellence, Ontario Hospital Association, 2009.

Deloitte, *The Effective Not-for-Profit Board* (undated)

Deloitte, Terms of reference *Not-for-Profit Audit Committees* (undated)

Dimma, William A., *Tougher Boards for Tougher Times: Corporate Governance in the Post-Enron Era*. John Wiley & Sons Canada Ltd, 2006. (Chapter 22 provides a comparison between corporate and not-for-profit governance.)

Gill, Mel D, *Sample Governance Policies*, Institute on Governance, 2002.

Gill, Mel D, *Governing for Results*, Trafford Publishing, 2005.

Hall, Michael, et al. *Cornerstones of Community: Highlights of the National Survey of Nonprofit and Volunteer Organizations*, 2003 Revised, Statistics Canada, Small Business and Special Surveys Division, 2005.

Ingram, Richard T., *Ten Basic Responsibilities of Nonprofit Boards*, 2003.

Kelly, Hugh M., *Duties and Responsibilities of Directors of Not-for-Profit Organizations*. Canadian Society of Association Executives, 2004.

NonProfit Risk Management Center, *What's the Difference? Audit Committee v. Finance Committee*

## Websites

Alliance for Nonprofit Management, Washington, DC  
**[www.allianceonline.org](http://www.allianceonline.org)**

Altruvest Charitable Services **[www.altruvest.org](http://www.altruvest.org)**

BoardSource **[www.boardsource.org](http://www.boardsource.org)**

Canadian Society of Association Executives **[www.csae.com](http://www.csae.com)**

Charity Village **[www.charityvillage.ca](http://www.charityvillage.ca)**

enVision.ca Virtual Resource Centre **[www.enVision.ca](http://www.enVision.ca)**

CICA Not-for-Profit Organizations Online Resource Centre  
**[www.cica.ca/npo](http://www.cica.ca/npo)**

CICA Directors Source **[www.directorssource.com](http://www.directorssource.com)**

CompassPoint Nonprofit Services **[www.compasspoint.org](http://www.compasspoint.org)**

Imagine Canada **[www.imaginecanada.ca](http://www.imaginecanada.ca)**

Nonprofit Library Commons **[www.nonprofitscan.ca](http://www.nonprofitscan.ca)**

NonProfit Risk Management Center **[www.nonprofitrisk.org](http://www.nonprofitrisk.org)**

United Way of Canada: Board Development  
**[www.boarddevelopment.org](http://www.boarddevelopment.org)**

Volunteer Canada **[www.volunteer.ca](http://www.volunteer.ca)**



## About the Author

### **Dan H Cornacchia, FCA**

Dan Cornacchia, a Chartered Accountant and a Fellow of the Institute of Chartered Accountants of Ontario, is an independent advisor on financial, risk oversight and management, and governance issues. He is a retired partner of Ernst & Young in Toronto.

Dan is a past member of the CICA's Risk Oversight and Governance Board and past Chair of its Not-for-Profit Task Force.

Dan has served on the boards of several not-for-profit organizations. He is Co-founder, Director and Treasurer of the Canadian Foundation for the Prevention of Family Violence, and its PACT Urban Peace Program. Dan is also Co-founder and a former Director and Treasurer of the Redwood Shelter for abused women and children. He is a charter member, past President and former director of the Rotary Club of Parkdale-High Park. And he has served as a director and officer of other organizations including the Canadian Association for Community Living, the Ontario Sailing Association and the Outer Harbour Centreboard Club.



