Improved Annual Reporting by Not-for-Profit Organizations

2019
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About This Guide

CPA Canada’s *Improved Annual Reporting by Not-for-Profit Organizations (Guide)* is designed to assist report preparers and approvers in developing high-quality annual reports that enhance transparency and accountability of not-for-profit organizations (NFPOs) to stakeholders.

There have been numerous changes in the not-for-profit reporting environment since the *Guide* was first published in 2011. The following developments are addressed in this update:

- **Non-financial performance indicator reporting**
  The mandates of not-for-profit organizations focus on providing services to the community rather than on profits, underscoring the importance of non-financial performance reporting, an activity that has garnered increasing interest in all sectors of the economy and is of particular relevance to NFPOs.

- **Environment, social and governance (ESG) considerations**
  There is growing attention by stakeholders to ESG matters and how they are incorporated into organizational processes. ESG considerations such as environmental footprint, workforce engagement, workplace culture and quality of leadership could have significant impacts on organizational performance and reputation.

- **Information technology (IT) issues**
  Privacy legislation and the growing risk of data breaches, including donor data breaches, are key issues for management to address.

- **Future initiatives and prospects**
  Financial statements primarily contain historical information, and while stakeholders are interested in the organization’s past, they also want to know about its future initiatives and prospects.

The nature of and delivery methods for annual reports are also changing. While annual reports are frequently delivered using downloadable PDFs and print, organizations are increasingly experimenting with alternative reporting formats such as videos, interactive media platforms, websites and online books. CPA Canada will continue to monitor these developments and the evolution of reporting in the not-for-profit sector. Examples of these alternative reporting formats are included in *Appendix I* of this *Guide*. 
Acknowledgements

CPA Canada would like to acknowledge the significant contributions of Lynda Gagné, PhD, CPA, and the advisory committee that contributed to the development of this Guide:

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Effective reporting is key to establishing and maintaining good relations with stakeholders and attracting and retaining volunteers, partners and funders – all of which are critical to the organization's ability to deliver on its mission. This Guide identifies key questions that should be answered in an annual report and examples from NFPOs of different sizes (see Appendix I).
Accountability and Transparency

Stakeholders expect NFPOs to demonstrate accountability and transparency. They take an interest in the administration of organizations receiving public funds, whether donor dollars, tax benefits or government funding, and are constantly asking questions about executive compensation, administrative costs, fundraising expenses, past successes and future prospects.

Annual reports can be part of the organization’s strategy to communicate with stakeholders on the use of public funds and build trust and community support.

“The public has higher expectations for organizations whose missions are to do good. Today, people want to know more about a nonprofit’s mission, its goals, its impact, and the outcomes produced. Donors want access to detailed financial reporting, too.”

Source https://captrust.com/transparent-reputations-and-nonprofit-organizations/#_ftn3

Defining Reporting

The term “reporting” as used in this Guide refers to the voluntary information an organization makes publicly available regarding its activities and performance. The information is commonly contained in an annual report and covers the organization’s fiscal year.
The Importance of Integrated Reporting

The standalone financial statements may not communicate all the information of interest to stakeholders. Examples of information not captured in the financial statements include volunteer contributions and community impact, which are fundamental to understanding a NFPO’s performance. The annual report should complement the financial statements by communicating the organization’s complete story. This is referred to as narrative reporting.

Effective narrative reporting should be integrated, meaning that it shows “how an organization’s strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value in the short, medium and long term”.¹ It should link financial and non-financial information on activities and accomplishments to give a clear picture of the organization’s performance over the past year, its progress toward its goals and its future prospects. It should also help stakeholders understand how finances support activities and discuss important trends, risks and other relevant information.

The diagram illustrates the questions an annual report should answer included in this Guide.

Reporting Appropriate to the Organization

The general principles of this Guide can be adapted by not-for-profit organizations of any size. However, just as NFPOs vary widely in size, complexity and resources, so the appropriate level of reporting will also differ. Reporting depth and complexity should be appropriate to the organization and not impose an undue administrative burden.

Developing an annual report or revamping an existing one can seem as one more task that takes time away from the organization’s mission. The annual report’s development provides an opportunity for management and staff to review and reflect on the organization’s accomplishments and challenges and should deepen board members’ knowledge of the organization.
Users of the Report / Stakeholders

Annual reports should be developed with the information needs of stakeholders in mind and should provide practical, useful information that will guide them in their dealings with the organization, whether as funders, volunteers, partners, beneficiaries or as part of the wider community.

Identifying Stakeholders

Users of a not-for-profit organization’s annual report will typically include:

- members
- donors and potential donors
- funding agencies
- users or beneficiaries of services
- employees
- volunteers
- partners
- creditors
- corporate sponsors
- media
- community / general public
- special interest groups

Members of the general public may consider themselves to be indirect supporters through their taxes and may also be potential donors or volunteers.
Determining Information Needs

Each organization should identify their annual report’s primary users and to what extent the information presented should be targeted to their needs or be more general.

User needs depend in part on their familiarity with the organization, their relationship to the organization and the sector in which it operates and what other means of communication (if any) they have with the organization.

A relevant and useful annual report should communicate information that will help stakeholders make decisions about their involvement with or contribution to the organization.

Judgment is required when considering the quantitative and qualitative information to include and/or exclude from the annual report that would impact the decision of a user.
Questions Annual Reports Should Answer

Annual reports should answer key stakeholder questions, including:

1. What are the purpose, mission and vision of the organization?
2. What is the strategy to achieve the purpose/mission/vision?
3. What were the goals for the year? How did actual performance compare with expectations?
4. What were some of the financial highlights during the year?
5. What are the organization’s risks and opportunities?
6. What were the organization’s fundraising methods, revenues and related expenses?
7. What is the organization’s outlook for the future?
8. How is the organization structured and governed?
Key Elements of Reporting

Organizational Purpose, Mission and Vision

Present relevant background information early in the annual report to help the reader understand the organization and the purpose it serves. Relevant background information may include a brief description of the organization and its activities, an explanation of the geographical area, population, and/or sector served and any significant implications of the regulatory framework within which the organization operates. This part of the organization’s story will assist readers unfamiliar with the organization’s mission.

The organization’s mission (or purpose, mission and vision) should be central to the annual report. After all, that is what the organization is all about. The purpose of the organization should be clearly expressed so the reader can visualize what success looks like for the organization.

The report should explain how activities and programs over the past year contributed to achieving the organization’s mission and vision. Reporting measurable results and outcomes can show how much progress was made over the course of the year. Relating the financial information back to the mission and vision can explain how the organization’s financial results and the stewardship of its resources supported its mission and vision.

Strategy

Once the organization’s mission and vision have been clearly laid out, the next step is to articulate how it plans to achieve them. This is the organization’s strategy, and it will have both shorter-term (over the next year or two) and longer-term components. It is helpful to set out the strategy early in the report to provide context for the user.

The organization’s strategic plan should include milestones and performance measures or indicators to evaluate progress in achieving the vision.

Does your mission statement need to be revisited?

Revisiting the mission statement may be an eye-opener for some organizations: they may find an incongruence between their articulated mission and current activities. Such a discovery would suggest that a strategic planning exercise may be in order to determine whether the mission statement needs updating or if current programs and resource allocations need to be reassessed.
Performance measures may be financial or non-financial. Non-financial performance measures will typically include input, activity or output and outcome measures, and are further discussed in the next section.

**Goals and Performance Measurement**

A key element of an annual report is a description of programs, activities and results for the past year. This presents an opportunity for the organization to tell stakeholders how it goes about achieving its mission and vision. Ideal reporting demonstrates accountability by linking programs and activities to desired outcomes, reflecting the organization’s strategy. Financial and non-financial performance measures can be used to quantify an organization’s progress toward achieving its vision. The focus in this section is on non-financial performance measurement and reporting.

**Performance Measures / Indicators**

Performance measurement refers to the development and use of performance measures / indicators in planning and reporting documents. These indicators assist an organization in documenting resource use, activities and results. Funders and donors typically expect funded organizations to adequately describe what they plan to do and what they have done with funds received and what they expect to achieve or have achieved with their programming.

Performance indicators may include the following types of measures:

- **Input**: An input is a resource used to deliver a program. It can consist of funds, staffing, volunteers and other asset contributions.

- **Activity**: This is any task performed to achieve program delivery (e.g., an employment training workshop or a counselling session).

- **Output**: An output is the completed product of an activity (e.g., the number of workshops or counselling session participants).

- **Efficiency**: Efficiency is the cost per unit of an activity, output or outcome (e.g., cost per workshop or counselling session and cost per workshop or session participant).

In 2018, the Accounting Standards Board (AcSB) issued a framework for both for-profit and not-for-profit organizations on the selection, development and reporting of performance measures. The framework outlines the following characteristics to describe high-quality performance measures:

- relevance
- faithful depiction (including complete, neutral and free from material error)
- consistency
- comparability
- verifiability
- timeliness
- understandability

Refer to the Framework for Reporting Performance Measures for further details.
• **Outcome:** Outcomes are the ultimate objective(s) of a program or activity (e.g., proportion of workshop participants who found work three months after training, or the proportion of counselling participants who had improved relationships three months after a counselling session).

Important data not captured by the financial statements may include elements like volunteer contributions, community impact, etc. Some of these elements may be difficult to quantify, but they are important parts of the organization’s story, and it is worth considering how to best communicate this type of information in the report. For instance, in-kind donations may or may not be captured in the financial statements. CPA Canada’s publication *A Guide to Financial Statements of Not-for-Profit Organizations: Questions for Directors to Ask* discusses accounting concepts underlying the recognition of donations-in-kind.

Reported performance measures should be consistent from one year to the next; any changes should be explained. Whatever measures the organization selects, the report should clearly explain their specific meaning and relationship to the mission. Reported non-GAAP financial performance measures should normally be reconciled back to the GAAP figures as reported in the financial statements.

Organizations may benchmark their performance using their own historical performance and the performance of comparable organizations, although the former is more likely. Historical comparisons benchmark the organization’s performance to its own past performance. If data on the performance of organizations of similar size, with similar programs, missions and desired outcomes is available, a comparison between the performance of such comparable organizations may be useful. Choosing internal or external performance measures for benchmarking requires professional judgement.

How performance measures are selected, developed and calculated should be consistent from year-to-year unless there are valid reasons for a change. Such reasons should be disclosed, and prior-period disclosures restated.

Non-GAAP financial performance measures and related GAAP figures reported in the financial statements should normally be reconciled.
Attrition in Performance Measurement

Performance measurement is an effective tool for describing and documenting an organization’s programs, activities and desired outcomes. However, performance measurement gives rise to the following questions:

• Are the organization’s programs and activities entirely or partially responsible for observed outcomes?

• How much of an observed change in desired outcomes is attributable to the organization?

While an organization can relatively easily document and provide measures of inputs, activities, outputs and efficiency, outcomes are usually far more difficult to measure. Whether (changes in) observed outcomes are partially or entirely the result of programming is often much more difficult to demonstrate because social or environmental outcomes are often affected by a multitude of factors beyond the control of an organization. It is important for an organization to understand and discuss such factors, which may have contributed to unexpected outcomes. The timing of reported outcomes should also coincide with the reporting period.

A government-funded NFPO provides employment training services for displaced workers. The program takes 12 months to complete. Just before the start of the last intake, the economy was in a slump. However, a remarkable economic recovery occurred during the training period. Two months after training is completed, the organization checks in with those who finished the training and finds that 85% of participants were fully employed, far above the expected 70% employment re-entry expectation.

Now reverse the situation and imagine the program started during an economic boom and finished in an economic downturn. In such a situation, one would expect that average employment re-entry expectations would not be met. The NFPO should discuss how the economic recovery or downturn may have affected observed outcomes.
Financial Highlights

As a best practice, annual reports should contain either the complete financial statements, including the notes to the financial statements, or condensed financial statements. Complete financial statements should be readily available if they are not included in the report. Condensed financial statements should be consistent with the complete financial statements.

Ultimately, the annual report should highlight and explain key financial information of interest to stakeholders. Rather than attempting to discuss every financial statement line item, the narrative should focus on the most relevant and material issues. Financial information can be linked to performance reporting, especially to inputs and their sources, and to program activities. The annual report may include a discussion about:

- administrative and fundraising costs (further discussed below)
- revenue streams, liquidity and cash flow and resources (including funding sources, capital assets, reserves, etc.)
- cost allocations, ensuring stakeholders understand the difference between administrative, program and fundraising expenses
- unusual or significant events, such as major capital spending and related fundraising campaigns
- shortfalls or significant deviations from the organization’s annual plan or budget

Narrative information regarding the financial statements should be consistent with the financial statements themselves and information disclosed elsewhere, such as in reports to funders and regulatory filings.

Organizations should be aware of commonly used financial metrics in their sector, such as asset base for endowment-revenue-reliant NFPOs, fundraising costs and administrative expenses ratios.

It is important to remember that the way in which financial information is presented matters. Using charts, ratios and trend data can make financial information more accessible and understandable.
Risks and Opportunities

The identification and management of risks and opportunities are key parts of good governance. Effective reporting of risks, mitigation strategies and opportunities can go a long way toward both managing expectations and building trust with stakeholders.

Stakeholders are interested in issues facing an organization that may affect its ability to execute its strategy and how those issues are being addressed. Risks and opportunities reporting should reflect their significance and materiality and may relate to the organization’s:

• **Strategy:** The relevance of the organization’s mission in a changing environment, increased competition, potential to link with new partners, changes in demand for services, etc.
• **Finances:** Changes in donation and funding levels, investment / endowment returns, potential revenue streams, expenses, etc.
• **Human Resources:** Ability to recruit and retain staff and volunteers, organizational culture, etc.
• **Operations and Program Delivery:** Client / user satisfaction, capacity constraints, etc.
• **Operating Environment:** Safety and vulnerability to accidents, etc.
• **Regulatory Environment:** Changes in obligations under laws and regulations.
• **Reputation:** How stakeholders and the public view the organization.

Effective risk disclosures explain the nature of the risk, its likelihood of occurrence and the probable impact it would have on the organization. Useful risk disclosures also include a discussion of the organization’s approach to risk management.
Cybersecurity Risk

Cybersecurity risk “means any risk of financial loss, disruption or damage to the reputation of an organization from some sort of failure of its information technology systems.”

NFPOs are particularly vulnerable to cybersecurity risk because of the sensitive data they collect and store, which may include donor information, health information, social insurance numbers, emails, employee and volunteer records and billing information.

Given the significant reputational, operational, financial, legal and regulatory implications of recent high-profile data breaches, users are increasingly interested in understanding a NFPO’s exposure to cybersecurity risk and the related policies, processes and controls in place to address this risk. The annual report narrative may be used to explain the measures in place to mitigate this risk and provide this protection.

International charity Save the Children was hacked twice by cyber scammers in 2017, losing more than $1 million through a sophisticated email scam. According to The Boston Globe, hackers used the email of a US employee to create false invoices and other documents to fool the organization into sending nearly $1 million to a fraudulent entity in Japan. While this case hit the headlines because of the global nature of the Save the Children brand, similar breaches at non-profits of all shapes and sizes go under the radar every day.


As a starting point, NFPOs may begin by assessing and documenting their cybersecurity risks and risk management program. The following CPA Canada resources are available to provide guidance in this regard:

- Appendix II - Questions for Management to Consider When Developing a Cybersecurity Risk Management Program
- Webinar - Managing Cybersecurity Risk: How to Get Started

Privacy Legislation

NFPO managers should be aware of the privacy legislation that applies to their organization. With the growing emphasis on proper handling of privacy information as well as stakeholder awareness of privacy issues, charities and not-for-profits are facing increasing risk with respect to privacy matters.3

If applicable, the annual report narrative may be used to explain the NFPO’s risks of compliance with privacy legislation and the related internal controls in place to mitigate such risk.

Several laws have been enacted to protect the privacy of Canadians. Such legislation may be federal, provincial or territorial. Federal legislation includes the Privacy Act and its regulations and the Personal Information Protection and Electronic Documents Act (PIPEDA) and its regulations.

Fundraising Methods, Revenues and Expenses

Fundraising methods and the associated revenues and expenses are receiving a great deal of interest from NFPOs’ stakeholders and the public at large. The annual report is an excellent opportunity to inform stakeholders about how an organization fundraises and how fundraising expenses compare to the revenues they generate.

NFPOs and especially registered charities should be aware of the widely reported ratio of fundraising expenses to fundraising revenue discussed in the CRA’s guidance, Fundraising by Registered Charities. The guidance also defines fundraising, describes unacceptable fundraising, provides a list of criteria for evaluating a charity’s fundraising, identifies factors that may influence the CRA’s evaluation of a charity’s fundraising, provides examples to help a charity distinguish between fundraising and other activities and provides other information to assist charities in complying with CRA reporting requirements.

If the organization’s fundraising performance can be accurately evaluated using this measure and the CRA guidance, this can be discussed in the report.

3 Shainblum, E. 2019. Why Charities and Not-for-Profits Should Comply With PIPEDA.
Outlook for the Future

Reporting on the outlook and future direction of the organization can flow naturally from the discussion of performance indicators, with the organization reporting achievement on the previous year’s goals and reporting the goals for the coming year(s).

Goals should be linked to the organization’s longer-term strategy for achieving its mission. The more detailed the discussion of future goals (e.g., aims, key objectives, supporting activities and key measures), the more useful the report will be as a tool for accountability.

Integrated into the discussion of future goals can be a discussion of factors (both internal and external), including risks that may affect the organization’s ability to meet those goals.

Outlook reporting could include a discussion of the following:

- environmental / economic factors likely to influence the organization’s ability to achieve its mission
- for foundations highly reliant on endowment revenues for program funding, a discussion of expected future rates of return and how these would affect endowment revenues
- fundraising and funding objectives, at least for the next year
- planned program activities and their expected / targeted output and outcomes
- special projects and expected major capital expenditures or other investments
- how operations / expenses / programming levels are expected to compare to those of the previous year

As with other elements of the report, the outlook discussion should be balanced and reflect both the risks and opportunities management has identified for the near future. Readers should be cautioned that the outlook discussion is based on projections for the future and that actual results may differ from projections.
Organizational Structure and Governance

Effective reports describe how management and the governance structure support the NFPO in achieving its mission. Such reporting allows stakeholders to assess the strengths of the organizational structure and governance in place.

Key organizational structure and governance elements to address in the annual report may include:

- the board’s mandate or governance philosophy
- governance structure (including committees)
- list of board members
- statement of directors’ responsibilities
- frequency of meetings and attendance of directors
- board composition matters, such as the means of electing or appointing directors, diversity, community representation, etc.
- corporate governance statement of compliance
- invitation to the Annual General Meeting (AGM)
- executive management structure
- the strengths of the management team
- changes in the senior leadership of the organization and succession planning

Reporting on the organization’s leadership responsibilities and the NFPO’s relationship to other organizations (chapters, subsidiaries, etc.) should also be done so that stakeholders understand where decision-making power and accountability lie.

Another key area of stakeholder interest is that of executive compensation. Charitable organizations are required by the Canada Revenue Agency to report salaries of their 10 highest-paid employees in their T3010 returns, and this information is freely accessible to the public. Canadian NFPOs without charitable status do not have such reporting requirements. Executive compensation discussion and details should reflect the environment within which the NFPO operates.

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5 Ibid.
Environmental, Social and Governance Considerations

There is increasing interest in understanding how environmental, social and governance considerations are applied to organizational processes and decision-making.

Although many NFPOs have a socially oriented mission, donors and other stakeholders want to assess whether the organization is employing responsible and ethical business practices that are aligned with the organization’s mission and values. For example, is the organization environmentally responsible? Does the organization treat its employees and suppliers fairly? Does the organization embrace diversity and inclusion?

These factors may impact the NFPO in a variety of ways, including its contributions, corporate partnerships, employee retention, reputation, government and regulatory approvals. Environmental and social issues may also impact the NFPO’s supply chain and ability to source needed inputs on a timely basis.

Determining what ESG information to report on should be based on stakeholder needs.
Completeness of the Report

Does the report:

• Provide relevant background information on the organization’s purpose and its operations?
• Clearly explain the organization’s mission and vision?
• Set out the organization’s strategy for delivering on its mission and vision?
• Highlight and explain key performance measures of interest to the organization’s stakeholders?
• Report on measurable outcomes that demonstrate progress toward objectives?
• Highlight relevant financial information?
• Report on fundraising revenues and expenses?
• Integrate financial and non-financial information?
• Explain the organization’s outlook, goals and plans for the future?
• Identify major risks to the organization’s ability to achieve its objectives now and in the future, along with measures undertaken to mitigate such risks?
• Demonstrate how the structure and governance of the organization supports its ability to deliver on its mission and vision?
• Provide a fair and balanced narrative, communicate both positive and negative information and highlight successes as well as shortfalls?
Practical Questions

Who Is Responsible for Reporting?

This depends on the size and type of organization. Large organizations may have both a communications and/or a public relations officer and a communications committee of the board. In small organizations with few paid staff, the annual report may be prepared primarily by the executive director, a volunteer or a board member or committee. Regardless of who drafts the report, it should be reviewed and approved by the executive director and the full board of directors.

Refer to Appendix III – Overseeing the Quality and Appropriateness of the Annual Report for further details on the responsibilities of management, finance and audit committees, boards of directors and auditors.

How Should the Report Be Presented?

Report structure and format are important and should focus on making the information understandable and accessible. Effective reports often contain a table of contents or clear explanation of their structure and an introductory section or executive summary that encapsulates the overall message and key information.

The use of color, charts, tools, etc. can help break up large blocks of text and highlight key facts. As well, including feedback from users about programs and services helps to heighten readers’ interest in the report.

The report should be written in plain language and should be understandable by somebody who is not familiar with the organization, avoiding the use of either business or sector-specific terminology or jargon. Using simple language and focusing on information important to readers will sustain users’ attention.
Depending on the organization’s stakeholders, additional means may be necessary to make the report accessible (e.g., publishing in different languages, Braille or another appropriate format).

In addition, recent technological developments provide organizations with new ways of reaching and communicating with stakeholders, including videos, multimedia, social media and online reports and books. Each organization will need to determine the most appropriate way to disseminate its annual report.

**When Should the Report Be Issued?**

Although there are no legal or regulatory requirements regarding the timing of the report, it should be issued within a reasonable period of time following the finalization of the financial statements for the period in question. The longer the delay in releasing the report, the less valuable the information. Many organizations issue the report in time to make it available to members at the organization’s annual general meeting.

**Where Do We Report Our Information Each Year?**

Other documents and communication mediums (outside of the annual report) containing key information that tell the organization’s story include:

- financial statements
- website
- media coverage, such as press releases
- other filings, such as the Registered Charity Information Return or reports to funders
- social media platforms

**How Can We Continue Improving Our Report?**

To continue improving the report, it is important to take feedback from stakeholders and others into account. Information can be included in the report on how readers can submit feedback. Organizations with the budget to do so may use independent experts to review or improve their reporting.
**APPENDIX I**

**Examples**

The following extracts from annual reports were selected as examples to illustrate the different questions an annual report should answer. Select extracts also illustrate emerging reporting formats. The examples below provide a good starting point to address various reporting matters; however, each organization is unique and professional judgement is required when determining the appropriate disclosure.

<table>
<thead>
<tr>
<th>Questions an Annual Report Should Answer</th>
<th>Link to Annual Report</th>
<th>Reference</th>
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<tr>
<td>1. What are the purpose, mission and vision of the organization?</td>
<td>Homes First 2018 Annual Report</td>
<td>Mission (pg. 2)</td>
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<tr>
<td>2. What is the strategy to achieve the purpose / mission / vision?</td>
<td>CPA Canada Annual Report 2018–2019</td>
<td>Strategy and Business Model (pg. 12)</td>
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<td></td>
<td>Spinal Cord Injury Ontario 2018–2019 Year in Review</td>
<td>Strategic Plan: Year 2</td>
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<td>3. What were the goals for the year? How did actual performance compare with expectations?</td>
<td>Electronic Products Recycling Association (EPRA) Annual Report 2018</td>
<td>EPRA BC, Saskatchewan, Manitoba, Quebec, Nova Scotia and PEI, Newfoundland and Labrador, New Brunswick (pgs. 7, 9, 11, 13, 15, 17 and 19)</td>
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<td></td>
<td>Sarnia-Lambton Rebound Annual Report 2018–2019</td>
<td>Evaluation, Programs and Services (pgs. 6-18)</td>
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<td>4. What were some of the financial highlights during the year?</td>
<td>Lifesaving Society of Ontario 2018 Annual Report</td>
<td>Treasurer’s Report (pgs. 4-5)</td>
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<td></td>
<td>Canadian Executive Services Organization (CESO) Annual Report 2018</td>
<td>Discussion of Financial Results (pg. 22)</td>
</tr>
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<td>5. What are the organization's risks and opportunities?</td>
<td>CPA Canada Annual Report 2018–2019</td>
<td>Key Risks (pgs. 33-36)</td>
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### Questions an Annual Report Should Answer

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<td>6. What were the organizations’ fundraising methods, revenues and related expenses?</td>
<td>WWF-Canada 2018 Annual Report</td>
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<td>Nature Conservancy of Canada 2017–2018 Year in Review</td>
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<td>Canadian Blood Services 2017–18 Annual Report</td>
<td>Governance (pgs. 54–58)</td>
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### Alternative / Emerging Reporting Formats

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<td>Calgary Community Foundation</td>
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<td>CPA Canada Annual Report 2018–2019</td>
<td>Video and online excerpts</td>
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<tr>
<td>Canadian Blood Services 2017–2018 Annual Report</td>
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APPENDIX II

Questions for Management to Consider When Developing a Cybersecurity Risk Management Program

The following questions are based on the illustrative description of the risk management program contained in the AICPA’s illustrative cybersecurity risk management report. The issues raised are not exhaustive.

**Nature of Operations**

Have we appropriately assessed and documented the nature of our operations, including the principal products, programs and/or services we provide and the methods by which we distribute them?

**Nature of Information at Risk**

Have we assessed the principal types of sensitive information we create, collect, transmit, use or store that carry an inherent cybersecurity risk?
Cybersecurity Risk Management Program Objectives

Has management established, under the direction of the board, our principal cybersecurity risk management program objectives related to availability, confidentiality, integrity of data, integrity of processing and the process for maintaining and approving those objectives for all operational units, programs and/or functions?

Factors That Have a Significant Effect on Inherent Cybersecurity Risks

Have we identified and documented the factors that have a significant effect on our inherent cybersecurity risks, including the following?

- characteristics of our technologies, connection types, use of service providers and delivery channels
- organizational and user characteristics
- environmental, technological, organizational and other changes relating to us and our environment

For security incidents that significantly impaired the achievement of our cybersecurity objectives, have we fully assessed and documented the nature, timing and extent of the incident and how it was resolved and remediated?
Cybersecurity Risk Governance Structure

Have we established processes for the following?

- establishing, maintaining and communicating integrity and ethical values to support the functioning of the cybersecurity risk management program
- cybersecurity accountability and reporting lines
- board oversight of the program
- hiring and developing competent individuals or contractors and for holding those individuals accountable for their cybersecurity responsibilities

Cybersecurity Risk Assessment Process

Have we established processes for the following?

- identifying cybersecurity risks and environmental, technological, organizational and other changes that could have a significant effect on our cybersecurity risk management program, including relevant legal and regulatory requirements
- assessing the related risks to achieving our cybersecurity objectives
- identifying, assessing and managing the risks associated with vendors and business partners

Cybersecurity Communications and Quality of Cybersecurity Information

Have we established a process for internally communicating relevant cybersecurity information necessary to support the functioning of our cybersecurity risk management program, including the following?

- objectives, expectations and responsibilities for cybersecurity
- thresholds for communicating identified security events that are monitored, investigated and determined to be security incidents requiring a response, remediation or both
Monitoring of the Cybersecurity Risk Management Program

Have we established processes for the following?

• conducting ongoing and periodic evaluations of the operating effectiveness of key control activities and other components of internal control related to cybersecurity

• evaluating and communicating, in a timely manner, identified security threats, vulnerabilities and control deficiencies to parties responsible for taking corrective actions, including management and the board of directors, as appropriate

Cybersecurity Control Processes

Have we established processes for the following?

• developing a response to assessed risks, including the design and implementation of control processes

• reviewing our IT infrastructure and the characteristics of its network architecture

• reviewing the key security policies and processes implemented and operated to address our cybersecurity risks, including those addressing the following:
  — preventing intentional and unintentional security events
  — detecting security events, identifying security incidents, developing a response to those incidents and implementing activities to mitigate and recover from identified security incidents
  — managing processing capacity to provide for continued operations during security, operational and environmental events
  — detecting, mitigating and recovering from environmental events and using backup procedures to support system availability
  — identifying confidential information when received or created, determining the retention period for that information, retaining the information for the specified period and destroying the information at the end of the retention period
APPENDIX III

Overseeing the Quality and Appropriateness of the Annual Report

Responsibilities of Management

Management is responsible for effective systems, controls and processes, including those that relate to information disclosed in the annual report.

The finance and audit committee is an important element of an organization’s systems, controls and procedures for all aspects of external financial reporting.

Responsibilities of Finance and Audit Committees

Organizations should provide a statement about the oversight role of the finance and audit committee in reviewing the annual report.

Responsibilities of Boards of Directors

Organizations should provide a statement about the role of the board of directors in approving the annual report. When approving the annual report, directors who are not members of the finance and audit committee will be interested in understanding how the finance and audit committee carried out the review described above, and in understanding the results of that review. Those other board members may apply similar criteria and considerations when assessing the annual report for purposes of providing their approval.

Responsibilities of Auditors

An organization’s auditor does not provide assurance on the annual report but rather reads the annual report (when the auditor is made aware of its existence) for the purpose of identifying whether it contains material inconsistencies with the audited financial statements or with the auditor’s knowledge obtained during the audit. The auditor is required to respond appropriately when material inconsistencies appear to exist, or when the auditor otherwise becomes aware that other information appears to be materially misstated.
## APPENDIX IV

### Resources

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<thead>
<tr>
<th>Source</th>
<th>Title</th>
<th>Publication Date</th>
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<tbody>
<tr>
<td>CPA Canada</td>
<td>Financial Reporting Alert: Accounting Standards Applicable to Private Sector Not-for-Profit Organizations</td>
<td>2019</td>
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<tr>
<td>CPA Canada</td>
<td>Managing Cybersecurity Risk: How to Get Started</td>
<td>2019</td>
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<tr>
<td>CPA Canada</td>
<td>Financial Reporting Alert: Tangible Capital Assets, Intangible Assets and Collections Held by Not-for-Profit Organizations</td>
<td>2018</td>
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<tr>
<td>CPA Canada</td>
<td>Audit &amp; Assurance Alert: CAS 720 – The Auditor's Responsibilities Relating to Other Information</td>
<td>2017</td>
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<tr>
<td>CPA Canada</td>
<td>Board Oversight of Not-for-Profit Evaluation: Questions for Directors to Ask</td>
<td>2016</td>
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<tr>
<td>CPA Canada</td>
<td>Performance Measurement for Non-Profit Organizations – The Balanced Scorecard as an Approach</td>
<td>2016</td>
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<tr>
<td>CPA Canada</td>
<td>20 Questions Directors of Not-for-Profit Organizations Should Ask About Risk</td>
<td>2009</td>
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<td>Accounting Standards Board</td>
<td>Framework for Reporting Performance Measures</td>
<td>2018</td>
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<tr>
<td>Canada Revenue Agency</td>
<td>Fundraising by Registered Charities</td>
<td>2011</td>
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