

Communicating Value **2017** ANNUAL REPORT

Presented at Annual Council 2018



Communicating Value **2017**

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DIRECTOR'S MESSAGE

Delivering Excellence is a shared mission that inspires how GCAS serves the Seventh-day Adventist Church and its family of organizations. We recognize excellence is only received when our service recipients perceive it to be so. In response, GCAS has embarked on determining ways of communicating value in a manner that promotes the perception of excellence being delivered. The first ways we have determined for communicating value revolve around how our reports are constructed and what insights those reports can convey.

Following user conversations and field tests, GCAS will unveil in 2019 a new reporting format entitled **Report to Governance**. This new reporting format is designed to be more user friendly and informative; and early feedback indicates it will encourage report users to be more responsive to the findings and recommendations being presented.

A complementary feature of the **Report to Governance** will be the data-driven insights provided to users, so they can appreciate the performance of their organization within a larger context of similar church organizations. To facilitate these insights, GCAS is conducting a global study of financial reporting in the Seventh-day Adventist Church which is intended to identify indicators regarding financial health, benchmarks for comparative measurements of performance; and risks having an impact on financial reporting.

In this edition of our Annual Report, selected results from a CFO Survey related to the global study on financial reporting have been included along with our regular summarized results of audit engagements performed around the world. By sharing these selected results, it gives a taste for some of the insights forming part of our efforts towards communicating value.

Thank you to the approximately 275 professionals operating from 45 different countries whose work this Annual Report represents. Together we make **Delivering Excellence** our signature every day!



Paul H. Douglas, MBA CPA
GCAS Director



Jack L. Krogstad, PhD CPA
GCAS Board Chair

We each embrace these values
enabling us to deliver excellence!

Service

We each share a personal commitment to Christian Service. Our attitude and actions incorporate Integrity, Respect, Professionalism, and Efficiency.

Integrity

- We are guided by moral and ethical principles which are reflected in our conduct.

Respect

- We respect God by humbly dedicating ourselves to Him.
- We respect our clients by valuing their opinions, understanding their needs, and supporting their mission.
- We respect our colleagues by valuing their contributions, understanding their needs, and supporting their professional growth.
- We respect our profession by applying its standards and best practices.

Professionalism

- We demonstrate a culture of helpfulness and courtesy by our attitude.
- We develop our core competencies through a commitment to continuous learning and obtaining the highest level of professional qualifications.
- We design our system of quality control to ensure our work complies with professional standards.
- We determine to communicate valuable information in an effective manner.

Efficiency

- We are committed to conserving church resources by providing the highest quality audits at the best economical value.

OUR SHARED MISSION & VALUES

OUR RESOURCES

Our team has responded to God's call to devote their talents to serving Him and His church.



The engine for ***Delivering Excellence*** is fueled by an appropriation received from the General Conference and revenue we receive from billing our clients to recover the cost of the services to them.

The appropriation received from the General Conference represents 6.7% of its world budget and is used to provide subsidies for the costs of audit engagements outside of North America. The remaining costs that are not subsidized are passed to

the respective world divisions where our work is being performed and represents their share of the cost for the audit of entities located in their territory.

We provide these services with a highly qualified team, which is diverse in its composition and dedicated to the commitment of obtaining the highest professional qualifications in order to deliver excellence. Our team has responded to God's call to devote their talents to serving Him and His church.



Gary Hamel, an influential and iconoclastic business speaker, addresses GCAS auditors at their recent CONNECT2018 conference in Punta Cana, DR.

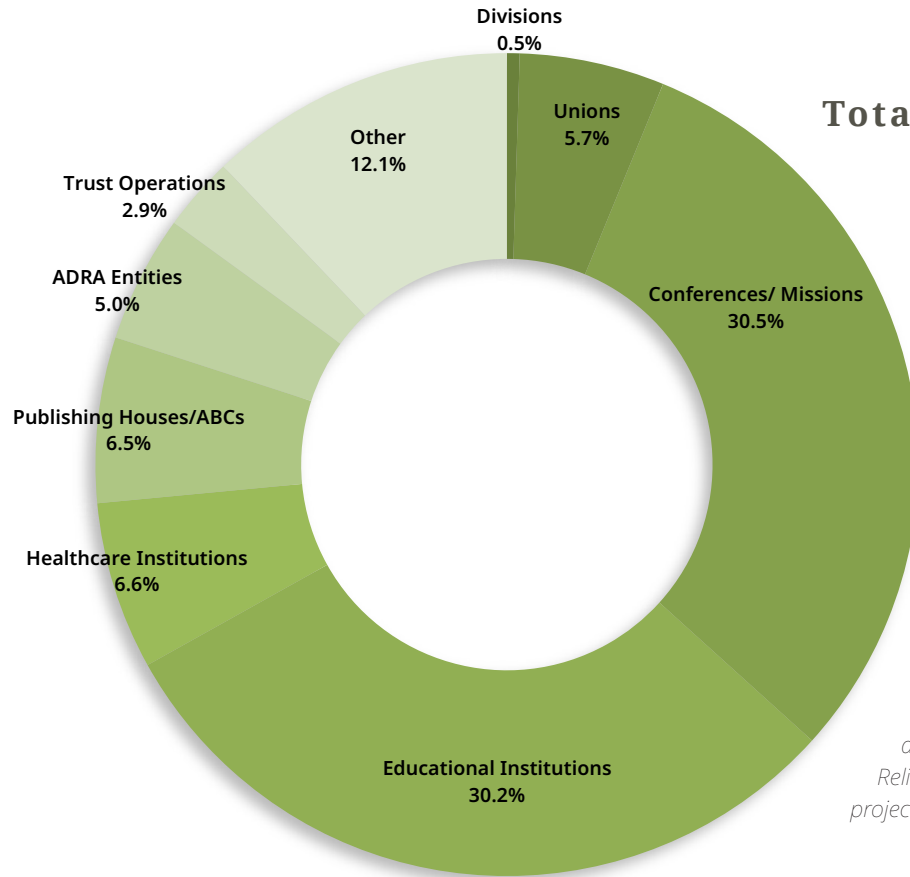
Human Resources

Female **29%**
Male **71%**

Professional Certification

Certification Completed **67%**
Certification in Process **33%**

OUR RESPONSIBILITY & CLIENT BASE



Total Clients: 2,370

Client Base—The General Conference Auditing Service serves as the Seventh-day Adventist Church's preferred provider of assurance and related services. The client base includes all denominational organizations such as General Conference institutions, world divisions and their institutions, unions/ union of churches and their institutions, local conferences/ missions/regions/field stations and their educational institutions at the secondary level or higher, and Adventist Development and Relief Agency country offices and projects not audited by external auditors.

—General Conference Working Policy SA 05 25



GCAS uses a financial audit process which is based on the latest professional standards and includes six phases that assure delivering excellence on every engagement.

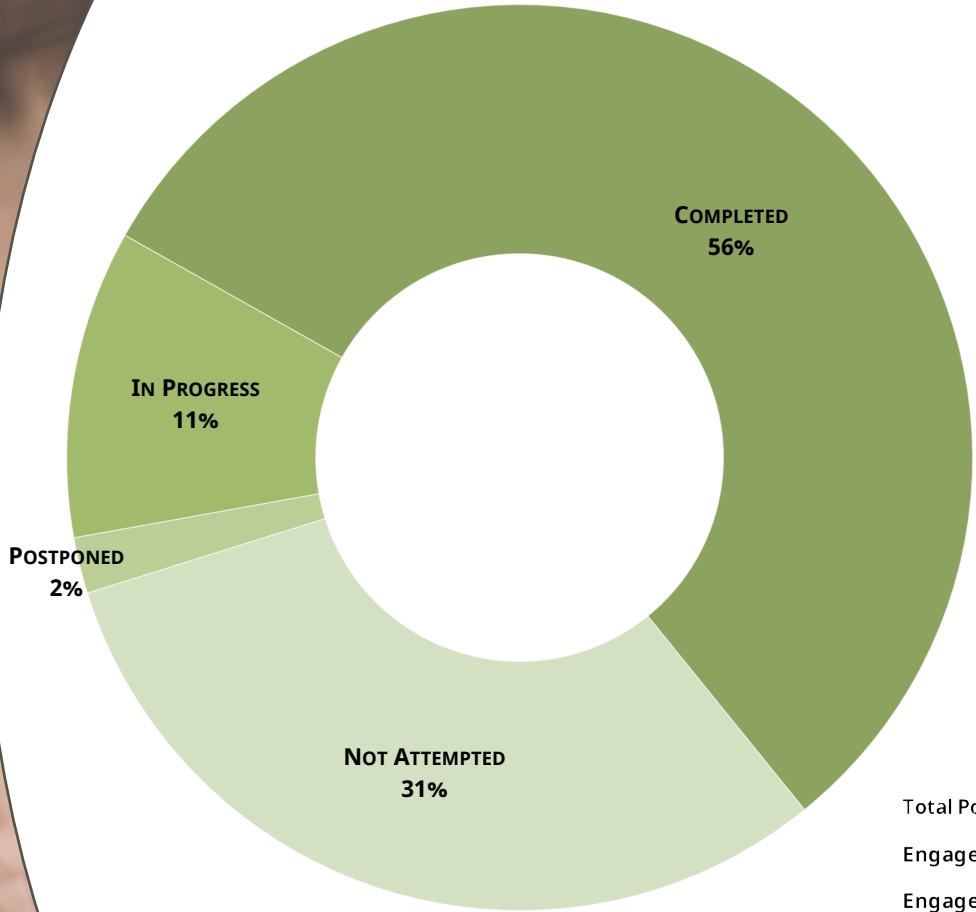
OUR AUDIT PROCESS

- Agree**
Develop and agree on written terms of engagement with the client
- Obtain**
Obtain information about client's accounting and financial reporting system
- Assess**
Assess the risk of material misstatement, whether due to error or fraud
- Perform**
Design and perform audit procedures based on assessed risk of material misstatement
- Conclude**
Analyze results, draw conclusions, and form an opinion about the financial statement
- Report**
Prepare and issue audit opinion and other communications to prescribed recipients





WORK PLAN RESULTS



Total Portfolio

Engagements Completed

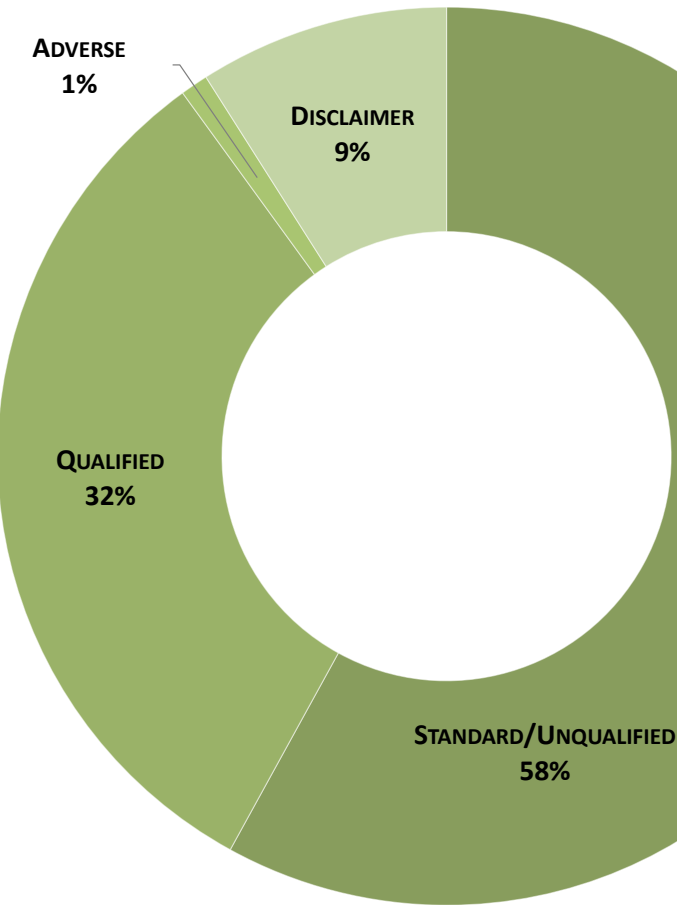
Engagements In Progress

Engagements Postponed

Engagements Not Attempted

Divisions	Unions	Conferences/Missions	Educational Institutions	Healthcare Institutions	Publishing Houses/ABCs	ADRA	Trust	Other	Totals
13	137	722	715	156	155	118	68	286	2,370
11	106	490	349	90	88	40	19	140	1,333
2	22	90	59	15	22	8	24	30	272
0	2	24	7	2	0	4	0	3	42
0	7	117	301	49	45	66	25	113	723

Types of Financial Statement Opinions



Standard/Unqualified

The auditor concludes that the overall financial statements are fairly presented.

Qualified

The auditor concludes that the overall financial statements are fairly stated except:

- they contain a misstatement that is not pervasive, or
- the auditor is unable to obtain sufficient audit evidence to determine whether there may be a material misstatement, but confident that any potential misstatement is not pervasive.

Adverse

The auditor concludes that the financial statements are materially and pervasively misstated.

Disclaimer

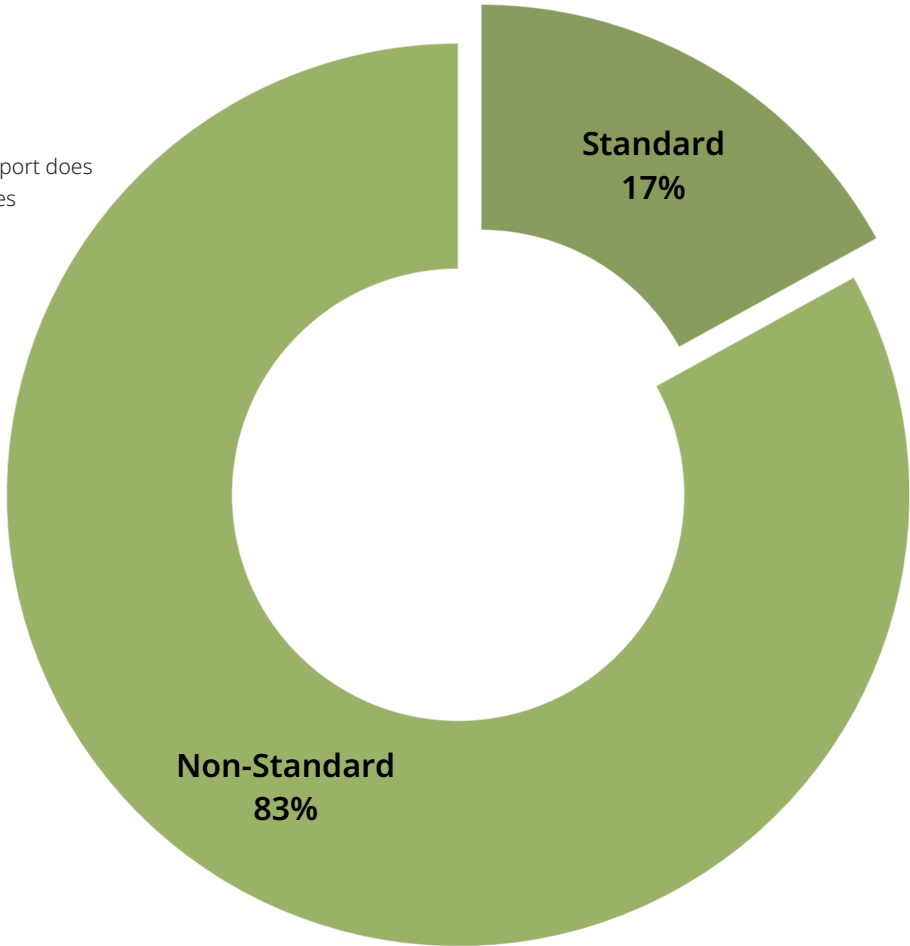
The auditor declines from rendering an opinion on the financial statements because auditor is unable to obtain sufficient audit evidence and potential misstatements could be both material and pervasive.



Types of Policy Compliance Reports

Standard
The policy compliance report does not mention any instances of non-compliance with denominational policy.

Non-Standard
The policy compliance report does mention instances of non-compliance with denominational policy.



REPORTING HIGHLIGHTS

Most frequent reasons for a non-standard Opinion on Financial Statements:

- Lack of evidence resulting in a disclaimer of opinion
- Lack of evidence for accounts receivable
- Lack of evidence for inventory
- Misstatement of cash
- Misstatement of property, plant and equipment

Most frequent reasons for a non-standard Policy Compliance Report:

- Insufficient monthly financial statements submitted to governing committee and administration
- Audit committee missing or improperly constituted
- Conflict of interest statements not signed by all committee members and other designated employees
- Insurance coverage not in harmony with working policy
- Not all service records updated and signed

Most frequent reasons for documenting internal control weaknesses:

- Lack of reconciliations for accounts
- Lack of authorization for transactions
- Lack of internal controls related to accounts receivable
- Lack of internal controls related to inventory
- Segregation of duties minimal or inadequate

EMERGING ISSUES

Accounting

- **Conceptual Framework**

The International Accounting Standards Board (IASB) issued the Conceptual Framework for Financial Reporting in March 2018 as part of a project to provide a complete and updated conceptual framework to use when it develops or revises International Financial Reporting Standards (IFRS) and to help others better understand and apply IFRS.

- **Accounting for Leases**

The IASB issued IFRS 16 Leases in January 2016. This new accounting standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to the lease, the lessee and the lessor. This new standard is effective January 1, 2019. Under the pre-existing standard, a majority of leases have not been reported on a lessee's balance sheet. This new standard requires a lessee to recognize assets and liabilities for the rights and obligations created by leases of more than twelve months, thereby causing most leases to be reported on a lessee's balance sheet in the future.

- **Revenue Recognition**

In May 2014, the IASB established a single, comprehensive framework for revenue recognition to be applied consistently across all types of transactions, and industries. This framework will improve comparability of financial

statements. The core principle of the framework is that an entity should recognize revenue when the transfer of goods or services to the customer occurs, in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The original effective date was deferred until January 1, 2018, so that additional clarification could be provided and organizations would have time to implement this standard.

Auditing

- **Auditor's Report**

In January of 2015, the International Auditing and Assurance Standards Board (IAASB) issued new and revised standards, designed to significantly enhance confidence in the audit and the financial statements. These standards require certain additional information to be included in the auditor's report. The new standards require the opinion section of the auditor's report to be presented first, enhanced reporting on the appropriateness of management's use of the going concern basis of accounting, improved description of the responsibilities of the auditor, and for public entities, the auditor must report the most significant matters during the audit as "key audit matters," and must disclose the name of the engagement partner. The new and revised auditor reporting standards were implemented in 2017 because they were effective for audits of financial statements for periods ending on or after December 15, 2016.

Denominational

- **Financial Reporting Framework**

The denomination established a Financial Reporting Framework Committee to determine and publish relevant international accounting standards for implementation by church organizations. The committee is focusing first on redesigning the Seventh-Day Adventist Accounting Manual to be more dynamic in its response to changing accounting standards and publishing a multi-volume format tailored for user needs.

- **Financial Oversight**

The denomination is developing an additional level of financial oversight to supplement financial audits, financial reviews, and local church audits. This new level of financial oversight will be referred to as a financial "inspection" and is intended to be suitable for smaller and less complex organizations for which a higher level of service would be out of scale with the associated risks.

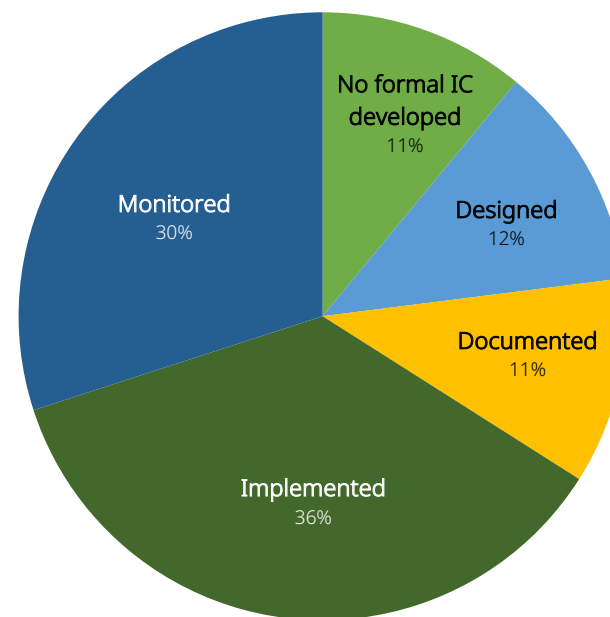
Daniel Herzel, BA CPA
Associate Director,
Professional Standards



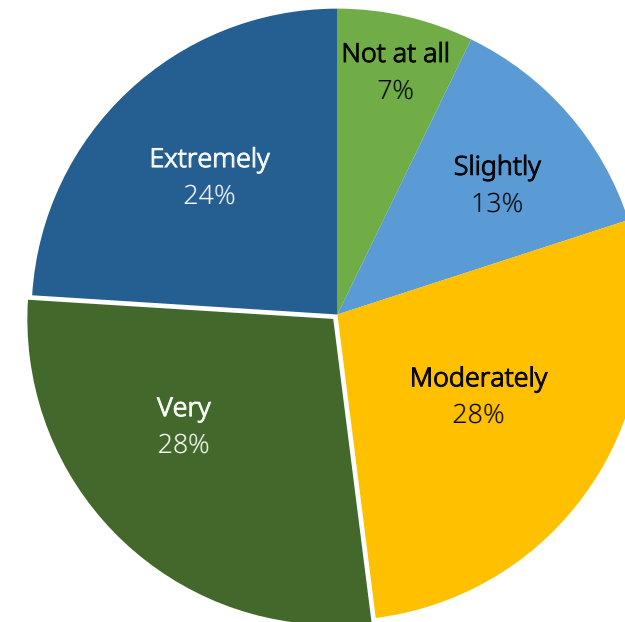
GLOBAL CFO SURVEY RESULTS

[SELECTED]

In connection with a global study on financial reporting in the Seventh-day Adventist Church, a survey instrument was circulated among CFOs to obtain information from denominational organizations regarding their internal control systems, financial reporting practices, audit committee activities, compliance with denominational financial policies, and awareness/experiences with fraud. Selected responses to this survey are being shared here in advance of a formal report to be published related to the global study being performed.

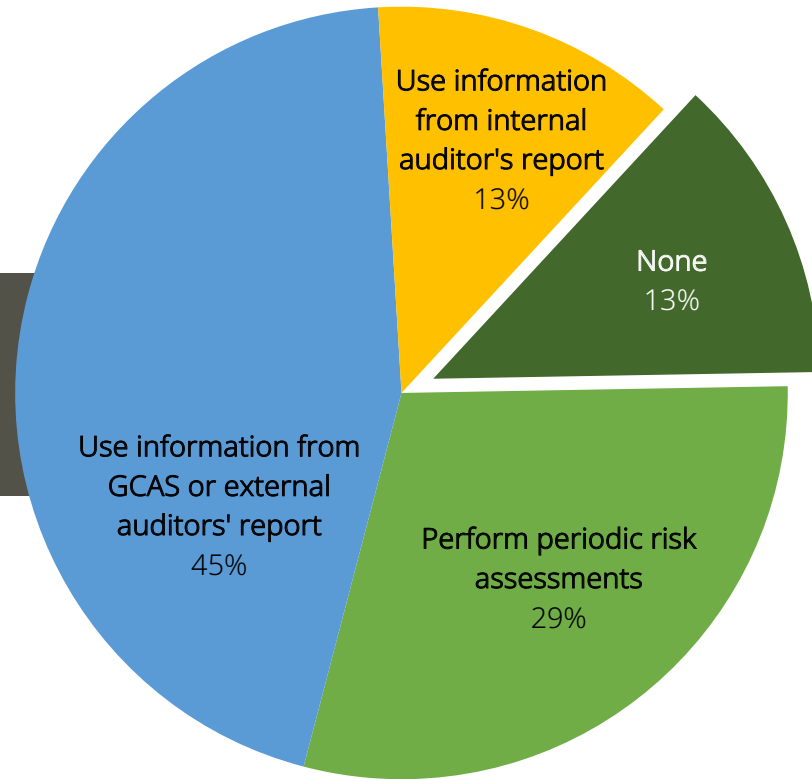


INTERNAL CONTROL MEASURED
AT VARIOUS STAGES OF FORMAL
DEVELOPMENT

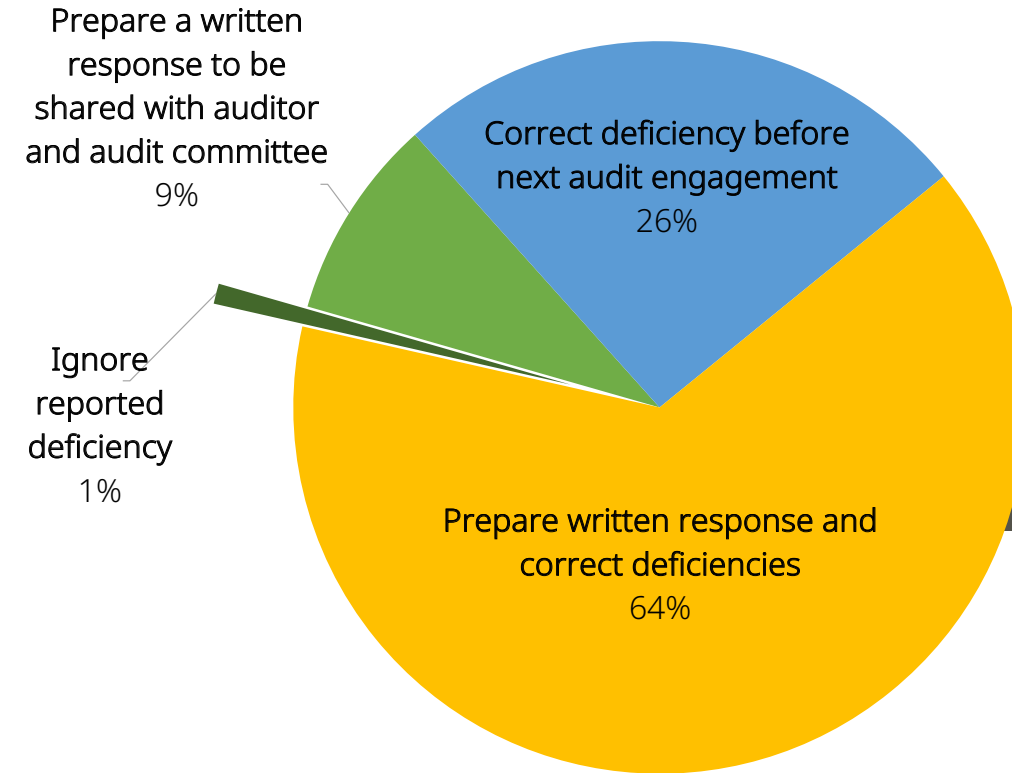


INVOLVEMENT OF GOVERNING
BOARD IN THE DEVELOPMENT
OF THE INTERNAL CONTROL

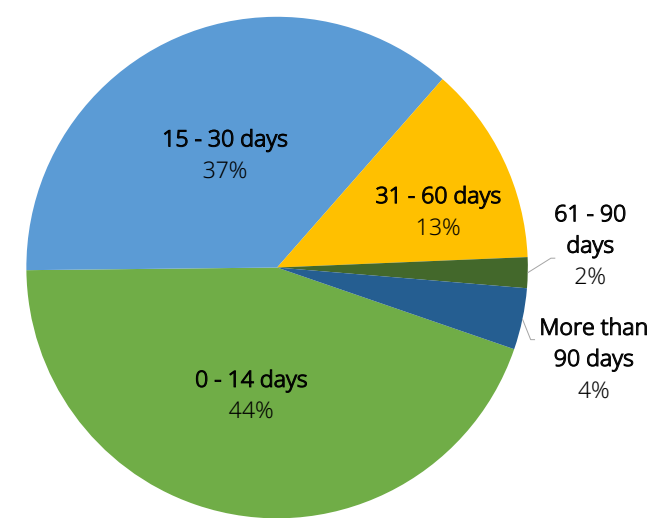
MECHANISMS USED BY
ORGANIZATIONS TO IDENTIFY
AND ADDRESS RISKS



RESPONSE TO INTERNAL
CONTROL DEFICIENCIES
IDENTIFIED AND REPORTED
BY AUDITOR

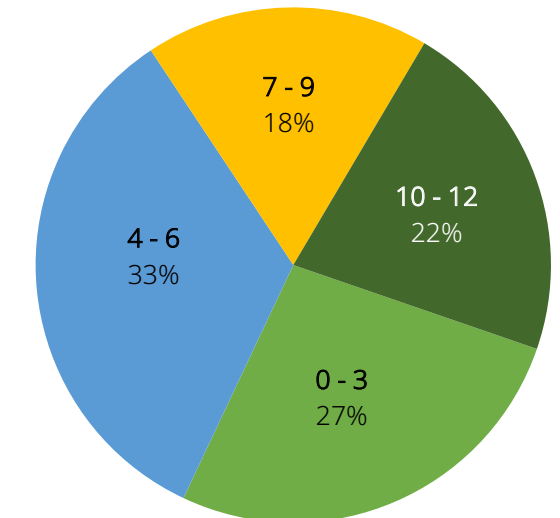


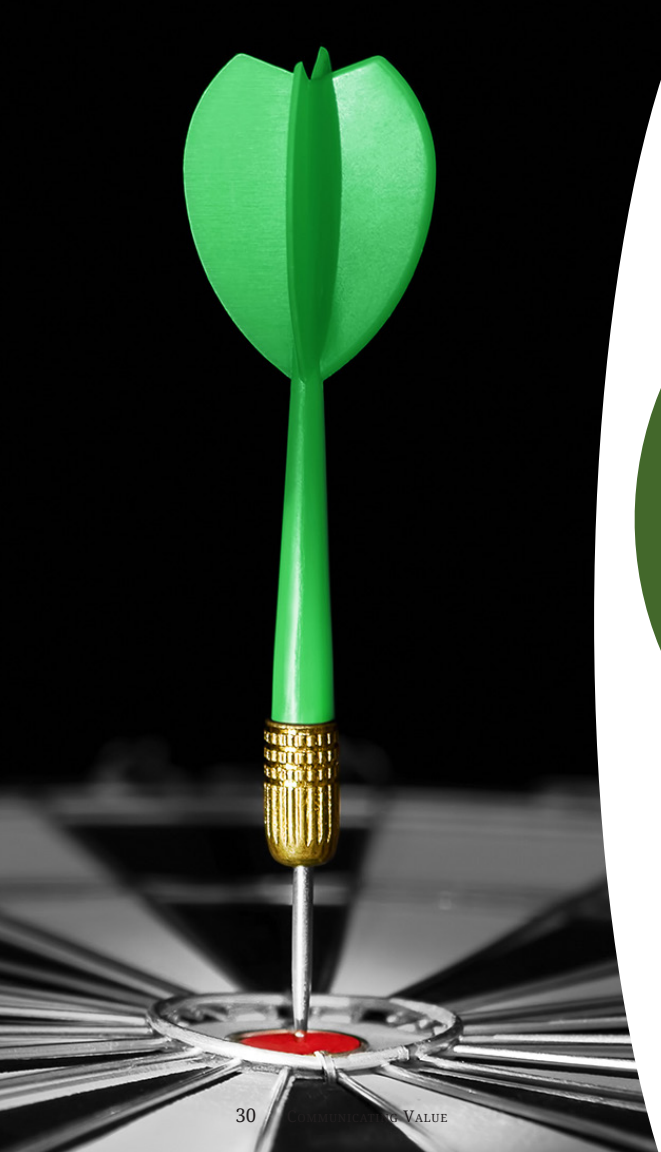
CFO SURVEY RESULTS [SELECTED]



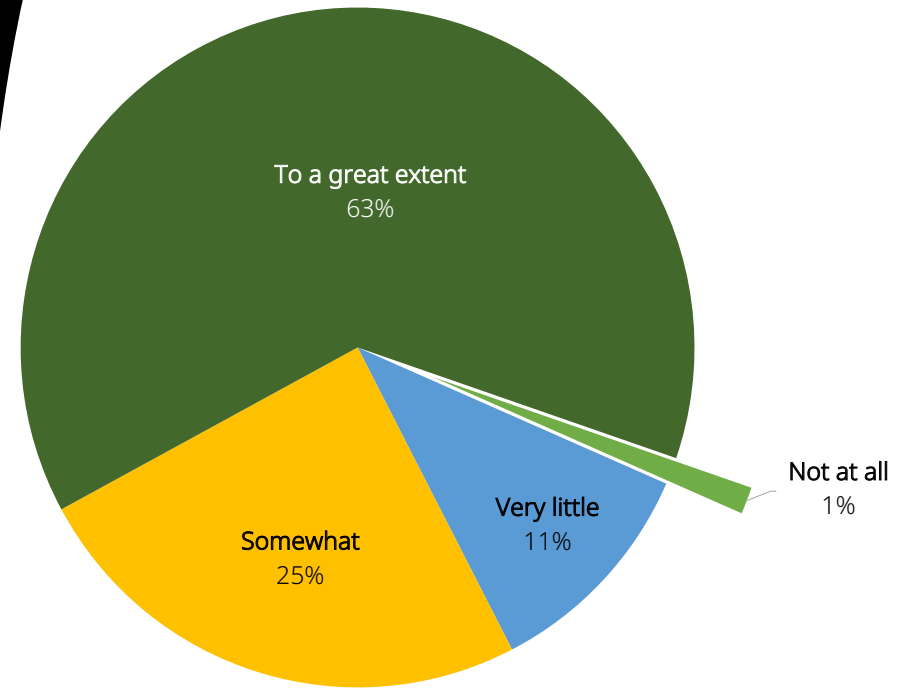
NUMBER OF DAYS FINANCIAL REPORTS
ARE READY AFTER END OF MONTH

NUMBER OF FINANCIAL REPORTS PRESENTED
TO GOVERNING BOARD EACH YEAR

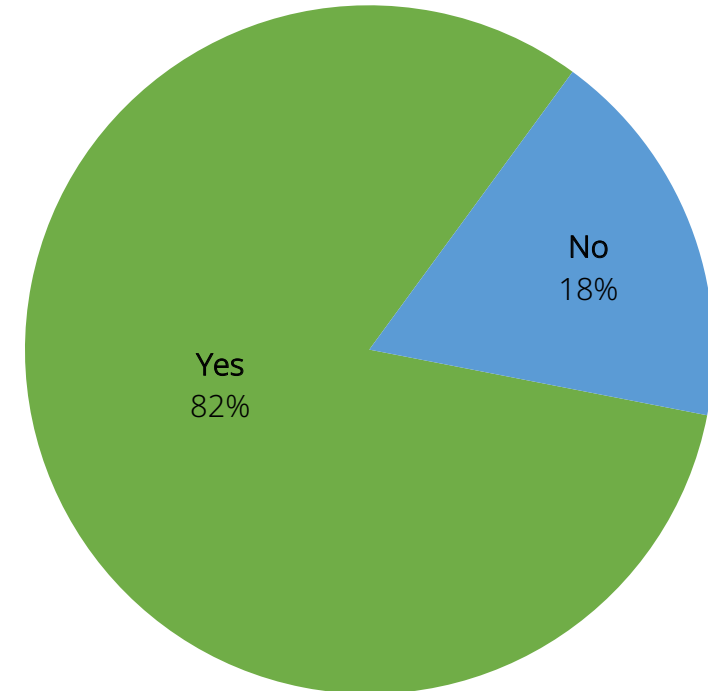




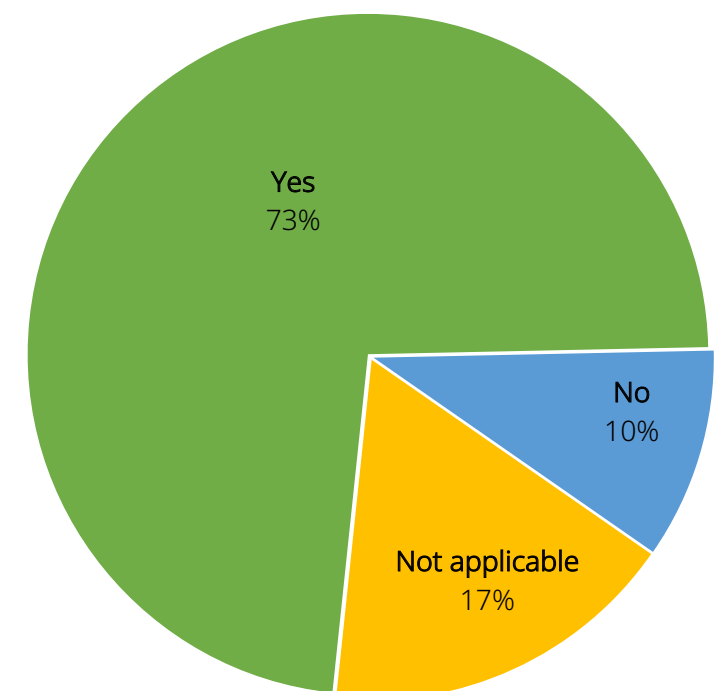
CFO SURVEY RESULTS [SELECTED]



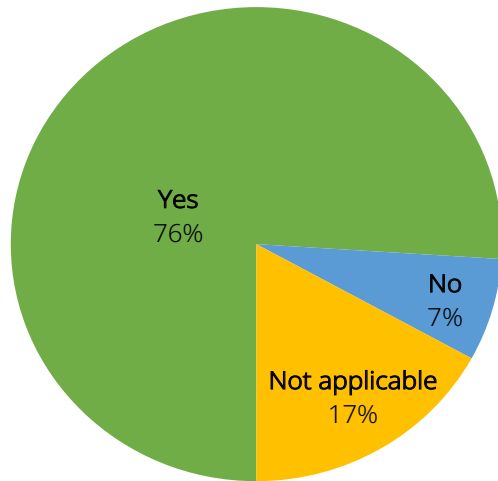
EXTENT TO WHICH FINANCIAL REPORTS
ARE USED FOR DECISION MAKING



ORGANIZATIONS WITH AN
AUDIT COMMITTEE

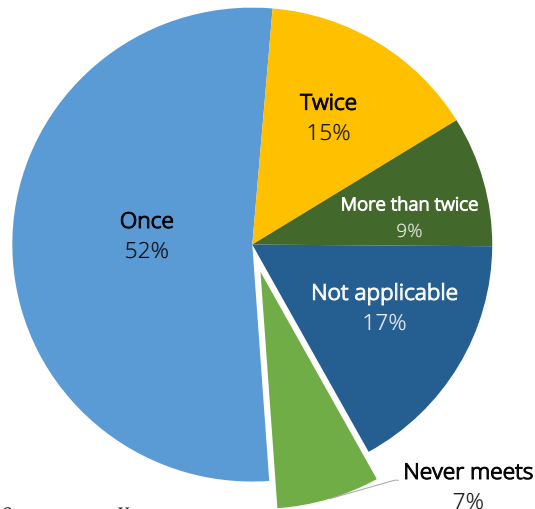


AUDIT COMMITTEE COMPRISED OF AT LEAST
THREE PERSONS WHO ARE NOT EMPLOYEES



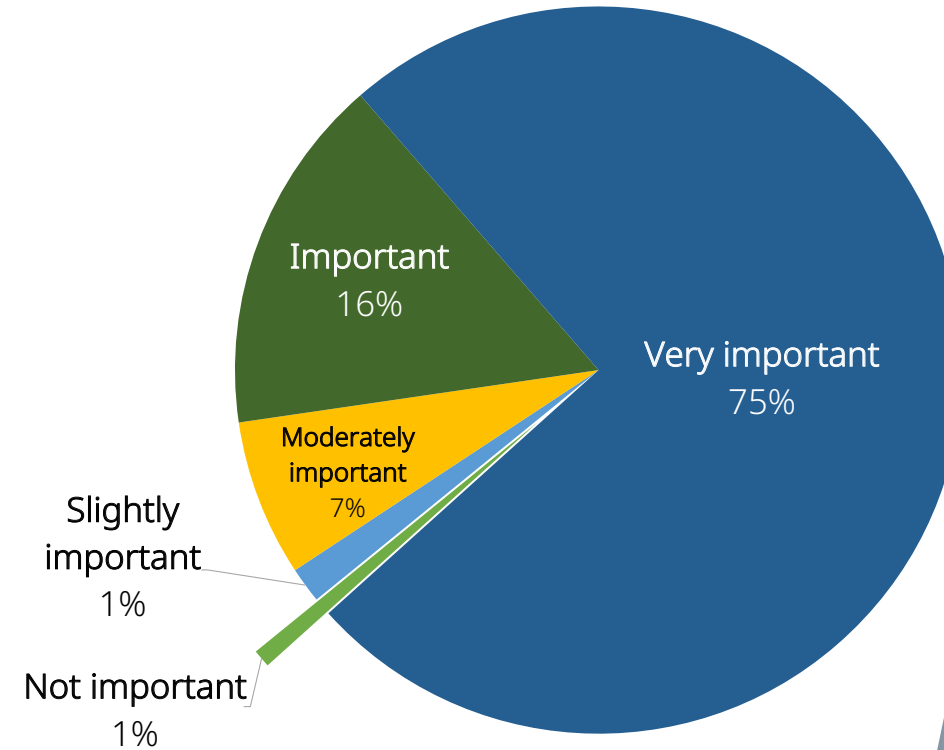
AUDIT COMMITTEE COMPRISED OF
AT LEAST ONE FINANCIAL EXPERT

CFO SURVEY RESULTS [SELECTED]



FREQUENCY OF AUDIT COMMITTEE
MEETINGS IN A YEAR

IMPORTANCE OF COMPLIANCE WITH
DENOMINATIONAL FINANCIAL POLICIES TO
OPERATING SUCCESS





Paul H Douglas, MBA CPA | *Director*
 Daniel E Herzel, BA CPA | *Professional Standards*
 Maurine Wahlen, MBA CPA | *Professional Development*
 Paul J Edwards, MBA CPA FCCA | *Process Improvement*
 Kimberly J Westfall, BBA CPA | *Quality Control*
 Gary B Blood, BS MCP | *Technology*
 Robyn W Kajiura, BBA CPA | *North America Area*
 Furaha Mpozembizi, BCom CA FCCA | *Trans Africa Area*
 Rogelio Cortez, BBA CPA | *Trans America Area*
 Jeremy T Smith, BBA CPA | *Trans Asia Pacific Area*
 Sandra C Grice, MBA CPA FCCA | *Trans Euro Asia Area*

LEADERSHIP TEAM

BOARD MEMBERS

Jack L Krogstad, PhD, CPA | *Chair/NAD Lay Representative*
 Thomas Lemon, MDiv | *Vice Chair/GC Vice President*
 Paul H Douglas, MBA, CPA | *Secretary/GCAS Director*
 Ted N C Wilson, PhD | *GC President*
 G T Ng, PhD | *GC Secretary*
 Juan R Prestol-Puesán, PhD | *GC Treasurer*
 Esther G Abayo, MBA, CPA | *ECD Lay Representative*
 Lyudmyla V Chyzhevska, D.Ec, CPA | *ESD Lay Representative*
 Roberto Maggiolini, DIP | *EUD Lay Representative*
 Hyden Gittens, M.Sc, CPA | *IAD Lay Representative*
 Masao Yanaga, BA, LLB, CPA | *NSD Lay Representative*
 Ailton Dorl, MBA | *SAD Lay Representative*
 Philip Ndlovu, B.Sc, CA | *SID Lay Representative*
 Margaret Dines, B.Ec, CPA | *SPD Lay Representative*
 Elirie S Aranas, CPA | *SSD Lay Representative*
 John Stanley, PhD, LLB | *SUD Lay Representative*
 Frenslly Pannefle, MBA, M.Sc | *TED Lay Representative*
 Martin N Onyenmuru, MA, MBA, FCA | *WAD Lay Representative*





**General Conference
Auditing Service**

Delivering Excellence!

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