



**ANNUAL REPORT**

**2014**

*Presented at Annual Council 2015  
Silver Spring, Maryland, USA*

# The Financial Audit Process

We believe in being faithful stewards of God's resources and demonstrate this by delivering to our clients the highest quality service at the lowest possible cost.

*We now invite you to explore the aspects of our financial audit process.*

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# Director's Message

As a ministry of the Seventh-day Adventist Church, GCAS is committed to serving the needs of our clients and enhancing the confidence of their stakeholders. Guided by solid leadership and strong ethics, we hold ourselves to the highest professional standards related to our work and expect the highest professional performance from our people. Our ministry is an integral part of the corporate stewardship embraced by the Seventh-day

Adventist Church and we are committed to serving God by delivering excellent audit services with a global team of people who have the right aptitude and right attitude to make this happen.

GCAS uses a financial audit process that is based on the latest professional standards and includes six phases that assures delivery of excellence on every engagement. With a commitment to Christian Service, we apply this six-phase audit process as an expression of our values of Integrity, Respect, Professionalism and Efficiency. Throughout our report we weave a thread of information related to the six-phase process for your consideration.

Our 2014 Annual Report provides an insight on our professional activities by presenting the summarized results of audit engagements performed from office locations around the world. These results were shared in detail to Church leaders and their constituent stakeholders as a part of administering their respective organizations.

A special thank you is extended to our approximately 275 professionals operating from offices in 45 different countries who make Delivering Excellence our signature everyday!



**Paul H. Douglas, MBA CPA**  
GCAS Director



**Jack L. Krogstad, PhD CPA**  
GCAS Board Chair



# OUR SHARED MISSION

## SERVICE

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

# OUR SHARED VALUES

## 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.  
— our clients by valuing their opinions, understanding their needs, and supporting their mission.  
— our colleagues by valuing their contributions, understanding their needs, and supporting their professional growth.  
— 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.

*We each embrace these values enabling us to deliver excellence!*

# The Financial Audit Process

## AGREE

The first step in the audit process is the engagement letter. This letter defines the relationship between GCAS and its client. It covers the terms and conditions of the audit, outlines constraints and deadlines, and explains what the audit can and cannot do.

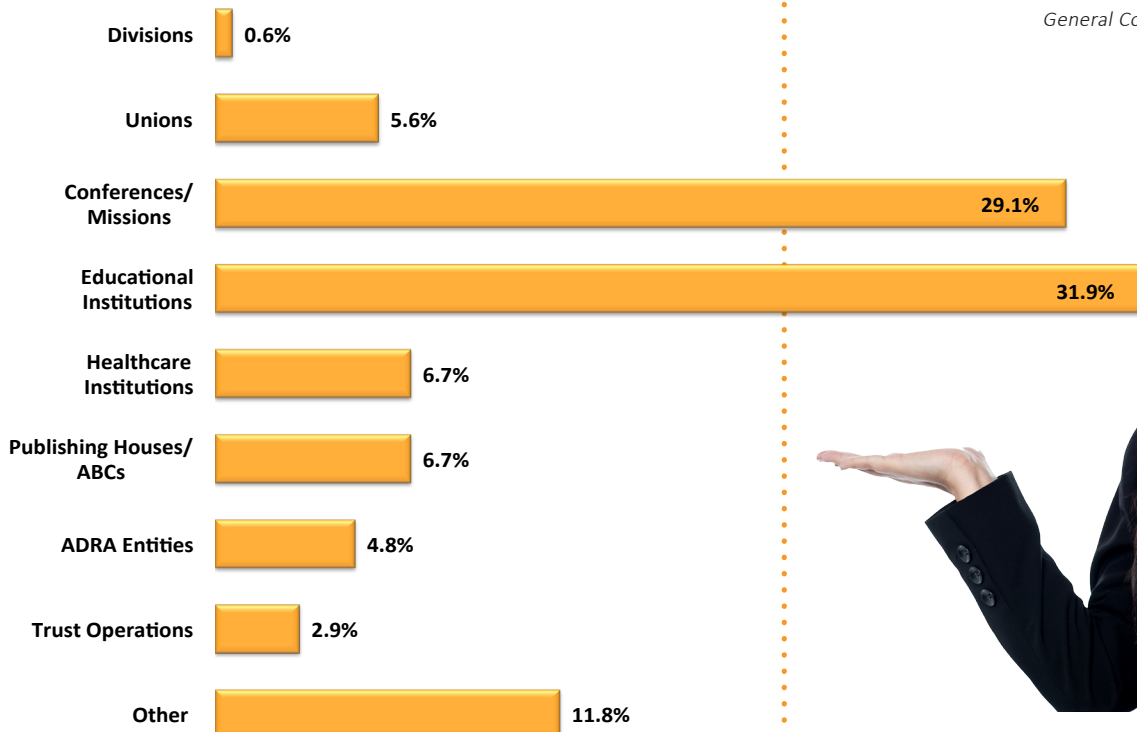


## OUR RESPONSIBILITY

**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*

## OUR CLIENT BASE





## OUR RESOURCES

The engine for delivering excellence is fueled by an appropriation received from the General Conference and revenue we receive from billing our services to clients to recover costs. The appropriation received from the General Conference represents 6.5% 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 program being delivered 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.



### Human Resources

|        |     |
|--------|-----|
| Female | 26% |
| Male   | 74% |

### Professional Certification

|               |     |
|---------------|-----|
| Certified     | 63% |
| Non-Certified | 37% |



## OBTAIN

The next step in the process focuses on gaining a more thorough understanding of our clients and evaluating the effectiveness of internal control. This step must be rigorous in order to gather and verify all key control procedures, documentation, and transactions that are related to the financial reporting process.



## North American Area

|     |                          |
|-----|--------------------------|
| 9   | Unions                   |
| 59  | Conferences/Missions     |
| 132 | Educational Institutions |
| 5   | Health Care Institutions |
| 15  | Publishing/ABCs          |
| 2   | ADRA Offices             |
| 119 | Other                    |

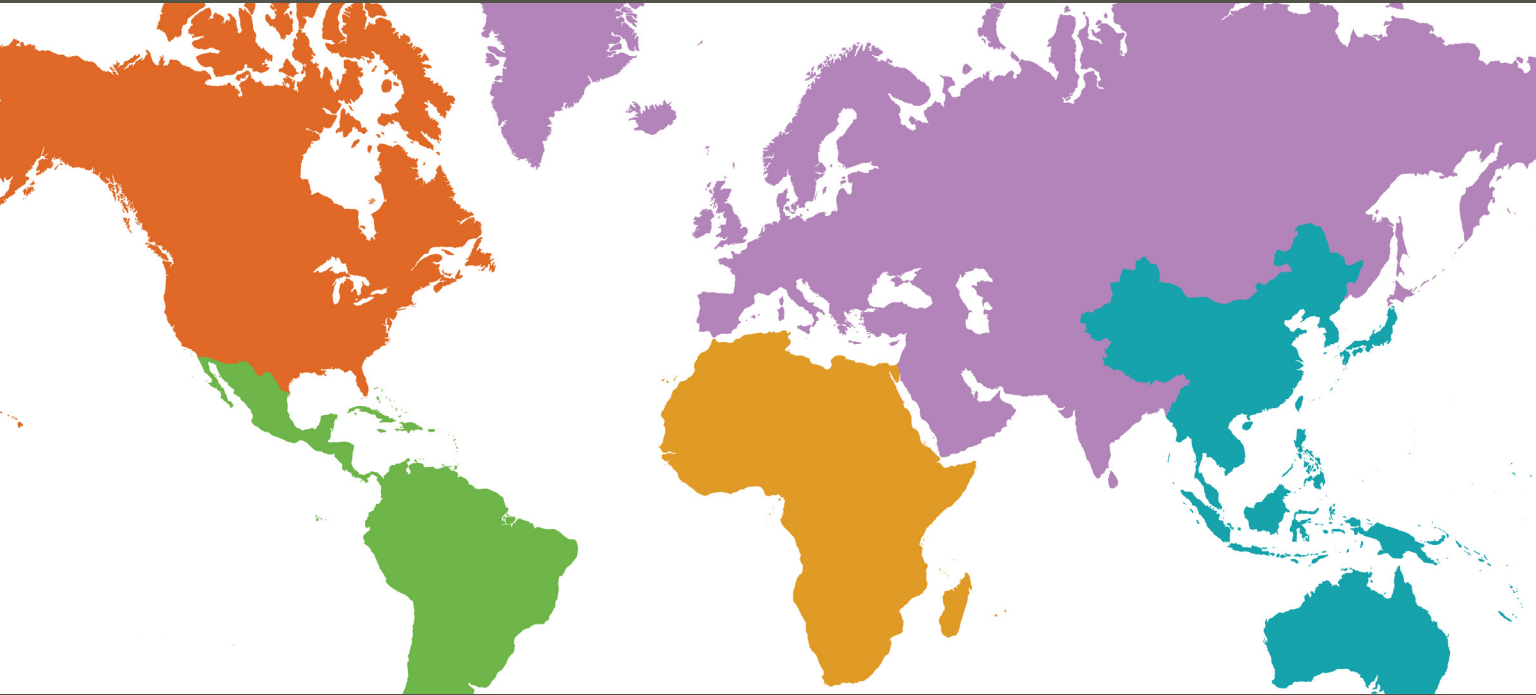
Associate Director: *Robyn W Kajjura*  
Maryland, USA

## Trans Euro-Asia Area

|     |                          |
|-----|--------------------------|
| 39  | Unions                   |
| 148 | Conferences/Missions     |
| 229 | Educational Institutions |
| 16  | Health Care Institutions |
| 26  | Publishing/ABCs          |
| 41  | ADRA Offices             |
| 98  | Other                    |



Associate Director: *Sandra C Grice*  
St. Albans, England



## Trans America Area



|     |                          |
|-----|--------------------------|
| 38  | Unions                   |
| 212 | Conferences/Missions     |
| 118 | Educational Institutions |
| 27  | Health Care Institutions |
| 68  | Publishing/ABCs          |
| 9   | ADRA Offices             |
| 33  | Other                    |

Associate Director: *Rogelio Cortez*  
Florida, USA

## Trans Africa Area



|     |                          |
|-----|--------------------------|
| 28  | Unions                   |
| 151 | Conferences/Missions     |
| 128 | Educational Institutions |
| 66  | Health Care Institutions |
| 32  | Publishing/ABCs          |
| 37  | ADRA Offices             |
| 43  | Other                    |

Associate Director: *Furaha Mpozembizi*  
Abidjan, Cote d'Ivoire

## Trans Asia Pacific Area



|     |                          |
|-----|--------------------------|
| 16  | Unions                   |
| 108 | Conferences/Missions     |
| 135 | Educational Institutions |
| 42  | Health Care Institutions |
| 14  | Publishing/ABCs          |
| 22  | ADRA Offices             |
| 49  | Other                    |

Associate Director: *Paul J Edwards*  
Wahroonga, Australia

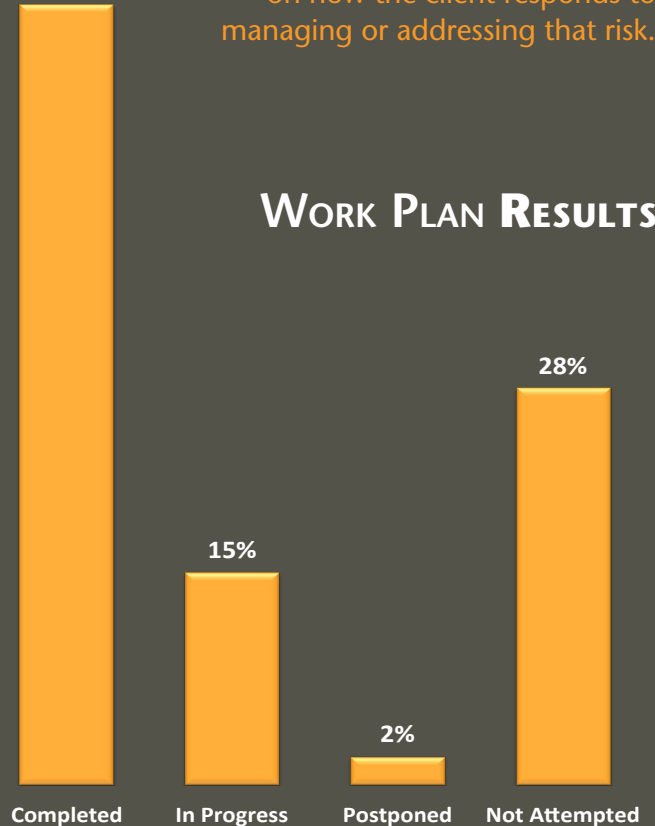
# ASSESS

Identifying and assessing the risk of misstatement due to error or fraud in the financial statements is the third step in the financial audit process. This step in the process also evaluates and reports on how the client responds to managing or addressing that risk.



55%

## WORK PLAN RESULTS



| Type of Entities            | Total Portfolio | Completed   | In Progress | Postponed | Not Attempted | Assets Audited        | Revenues Audited     |
|-----------------------------|-----------------|-------------|-------------|-----------|---------------|-----------------------|----------------------|
| Divisions                   | 13              | 12          | 1           | 0         | 0             | 775,000,000           | 346,000,000          |
| Unions                      | 130             | 90          | 20          | 2         | 18            | 1,282,000,000         | 448,000,000          |
| Conferences/<br>Missions    | 678             | 435         | 123         | 18        | 102           | 4,551,000,000         | 1,910,000,000        |
| Educational<br>Institutions | 742             | 357         | 81          | 11        | 290           | 2,920,000,000         | 1,499,000,000        |
| Healthcare<br>Institutions  | 156             | 69          | 31          | 7         | 51            | 461,000,000           | 468,000,000          |
| Publishing<br>Houses/ABCs   | 155             | 87          | 15          | 4         | 50            | 363,000,000           | 153,000,000          |
| ADRA                        | 111             | 44          | 5           | 6         | 54            | 62,000,000            | 50,000,000           |
| Trust                       | 67              | 13          | 23          | 1         | 31            | 0                     | 0                    |
| Other                       | 275             | 172         | 41          | 7         | 56            | 4,963,000,000         | 1,143,000,000        |
| <b>Total</b>                | <b>2327</b>     | <b>1279</b> | <b>340</b>  | <b>56</b> | <b>652</b>    | <b>15,377,000,000</b> | <b>6,017,000,000</b> |



# PERFORM

The fourth step in the process involves gathering evidence to support whether the financial statements our clients prepare are free of any material misstatement.

It is in this step that a clear connection can be seen between the procedures the auditor performs and the overall risk assessments that have been made in the previous step.



After the evidence has been gathered, reviewed and assessed, the auditor then formulates an opinion on the fair presentation of the financial statements.



## ANALYSIS OF REPORTS

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

- Lack of evidence due to un-reconciled inter-organizational balances
- Unable to verify accounts receivable balances
- Lack of audit evidence due to the overall state of the accounting records
- Misstatement due to inadequate provision for doubtful accounts
- Misstatement due to assets not recorded in financial statement
- Unable to verify income
- Lack of evidence due to inadequacy of inventory records

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

- Required conflict of interest statements not signed
- Lack of required Audit Committee

- Not submitting financial statements to governing board or management as required
- Service records not completed and up-to-date as required
- Not insuring property as required
- Not budgeting to recover prior loss

### Most frequent reasons for documenting internal control weaknesses:

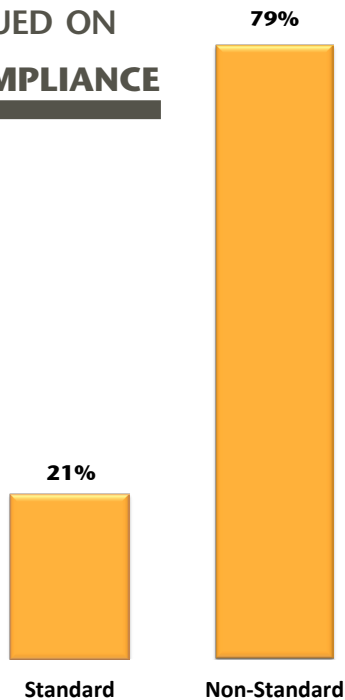
- Lack of adequate segregation of duties
- Inadequate reconciliation procedures for inter-organizational accounts
- Lack of authorization for transactions
- No evaluation of collectability of accounts receivable
- Management override
- Lack of review of general ledger
- No process to prepare financial statement disclosures

## REPORT

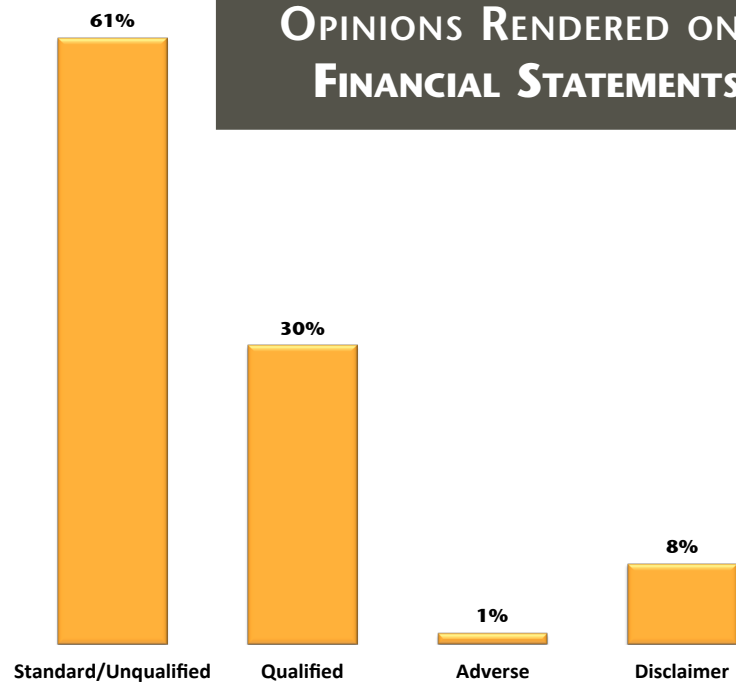
After the appropriate opinion has been determined a report is then drafted, reviewed, issued, and presented to the management of our clients and their respective audit committees. This represents the final step in the financial audit process and completes our important role in ensuring that the cycle of credibility continues without interruption.



## REPORTS ISSUED ON POLICY COMPLIANCE



## OPINIONS RENDERED ON FINANCIAL STATEMENTS



## TYPES OF 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 was 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.

13,174,000,000

1,906,000,000

61,000,000

236,000,000

Total Assets Audited

**15,377,000,000**

Standard

Qualified

Adverse

Disclaimer

4,659,000,000

1,167,000,000

23,000,000

168,000,000

Total Revenue Audited

**6,017,000,000**

## TYPES OF POLICY COMPLIANCE REPORTS

### Standard/Unqualified

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

### Qualified

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

## Accounting for Leases

The International Accounting Standards Board (IASB) continues to re-deliberate a 2013 proposed change to the required accounting for leases in response to the feedback about the proposal's complexity. Under existing standards, a majority of leases are not reported on a lessee's balance sheet. The proposal required 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. This proposal also provided two methods to recognize the expense, depending on whether the underlying asset was equipment or real estate.

## 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 has been deferred until January 1, 2018, so that additional clarification can be provided.

## Conceptual Framework

IASB issued an exposure draft in 2015 as part of a project to provide a complete and updated conceptual framework to use when it develops or revises International Financial Reporting Standards (IFRSs) and to help others better understand and apply IFRS. The IASB plans to finalize the revision of the conceptual framework in 2016.

## Auditor's Report

In January of 2015, the International Auditing and Assurance Standards Board (IAASB) issued new and revised standards, designed to significantly enhance the auditor's reports for users of financial statements. These standards require certain additional information to be included in the auditor's report. This includes the reporting of the most significant matters during the audit to be reported as "key audit matters," the appropriateness of management's use of the going concern basis of accounting, improved description of the responsibilities of the auditor, and the name of the engagement partner. The new and revised auditor reporting standards will be effective for audits of financial statements for periods ending on or after December 15, 2016.

## 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.





## ONLY THROUGH TEAMWORK

### Leadership Team

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

### Board Members 2010- 2015

|                        |  |
|------------------------|--|
| NAD Lay Representative | Jack L. Krogstad, PhD CPA, Chair       |
| GC Vice President      | Lowell C. Cooper, MDiv MPH, Vice Chair |
| GCAS Director          | Paul H. Douglas, MBA CPA, Secretary    |
| GC President           | Ted N. C. Wilson, PhD                  |
| GC Secretary           | G.T. Ng, PhD                           |
| GC Treasurer           | Robert E. Lemon, MBA                   |
| ECD Lay Representative | Vincent Zirimwabagabo, B.Com           |
| ESD Lay Representative | Svetlana Kara, CCIM                    |
| EUD Lay Representative | Elvira Grosu, ACCA                     |
| IAD Lay Representative | Hyden Gittens, M.Sc, CPA               |
| NSD Lay Representative | Yungsang Oh, M.Sc, CPA                 |
| SAD Lay Representative | Ailton Dorl, MBA                       |
| SID Lay Representative | Philip Ndlovu, B.Sc, CA                |
| SPD Lay Representative | Evelyn Will, BA                        |
| SSD Lay Representative | Lotie Blondo, MPA, CPA                 |
| SUD Lay Representative | John Stanley, PhD                      |
| TED Lay Representative | Frenslly Panneflek, MBA, M.Sc          |
| WAD Lay Representative | Philip Maitanmi, CA                    |

## Summary

Our ministry is an integral part of our corporate stewardship and *we are committed to serving God by delivering excellent audit services to the Seventh-day Adventist Church.*



*Delivering Excellence!*



12501 Old Columbia Pike | Silver Spring, MD 20904  
[www.gcasconnect.org](http://www.gcasconnect.org)