

DIOCESE OF THE CENTRAL GULF COAST

AUDIT GUIDELINES

DRAFT

PURPOSE

The goals of an audit or an audit committee's review should be to ensure that all financial transactions have been both recorded in the financial records and appropriately included in the financial reports for the year. This review should also be viewed as a self-examination of the functioning of the congregation's own internal control systems.

WHO THIS COVERS?

All churches regardless of size. Both the national Canons (Canon 6, Sec. 5) and the Diocesan Canons (Canon 10, Sec. 2) require that all congregations conduct an annual audit or review.

UPDATES

This document will be reviewed and updated on a periodic basis as needed by the Commission on Finance.

DESCRIPTION	VERSION	DATE
Working Draft (D. Babcock)	Draft v0.1	March 5, 2020
Updated Draft for Standing Committee Approval (D. Babcock)	Draft v0.2	May 27, 2021

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AUDIT BACKGROUND

The primary purpose of an audit is to assure that financial statements are fairly stated and that there are reasonable processes and controls in place. These guidelines outline the purpose of annual audits, the acceptable types of audits, what accounts must be audited, and who can perform those audits. There is also an accompanying Audit Checklist to assist audit committees in performance of their review.

Many times an audit is regarded as an obligation or an arbitrary requirement that puts an undue and unfair burden on congregations. The requirement for each congregation to conduct an audit each year, however, is more appropriately considered to be a part of our stewardship of the assets given to us to manage. Exercising good stewardship begins with being accountable for the assets God has entrusted to our care, and an annual audit helps all of us to be accountable.

Diocesan Canon 10, Section 2 states: “All accounts of the Diocese shall be audited annually by a Certified Public Accountant. All accounts of Parishes, Missions or other institutions shall be audited annually by a Certified Public Accountant, or Licensed Public Accountant, or such audit committee as shall be authorized by the Finance Committee, or other appropriate Diocesan authority.”

Please know it is recognized that professional services like a CPA can be cost prohibitive. There are certain churches that, due to their size or complexity of operations, need to have a full audit performed by an independent CPA. However, there are other churches that have much smaller memberships and operating expenses where the use of such services would be financially unreasonable. That is why there are provisions for a full audit, an audit review, and an “internal audit committee”. Unlike an audit according to generally accepted accounting principles, an internal audit committee provides for an independent overview of the financial and business procedures and policies of a local congregation.

TYPES OF AUDIT TO PERFORM

The type of audit that is recommended depends on the total operating revenue as defined by the annual parochial report:

Full Audit: this is an audit with an opinion by an independent Certified Public Accountant (CPA). This is a complete audit performed by a CPA who performs various tests of the supporting detailed accounting records and the internal financial controls used to prepare the approved financial statements (inquiry with appropriate personnel, physical inspection, verification and substantive testing procedures). It issues an opinion as to the fair presentation of same financial statements.

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Audit Review: a less intensive audit, a “review” is conducted, and an opinion provided by an independent CPA or LPA. This is not as detailed or as costly as a full audit and the opinion issued is not at the same level of assurance as a full audit. It primarily provides a review of an organization’s financial statement, make inquiries related to the accounting practices and principles used by the church, and issues a report that expresses that the financial statements are free from material misstatement.

Internal Audit Committee: An audit performed by a committee approved by the Vestry and utilizing the diocesan audit checklist and the general guidelines from *The Manual of Business Methods in Church Affairs*. For the purpose of an internal audit, a committee of two or three qualified members of the congregation, preferably knowledgeable about finances or accounting, shall be appointed by the Vestry and approved by the Rector/Vicar.

AUDIT REQUIREMENTS

The following are the recommended type of audits that should be performed and should be based on your congregations “Total Operating Revenue”. Note that you can find this on “Line B, Part II” of your completed annual parochial report.

1. CONGREGATIONS WITH TOTAL OPERATING REVENUES OF \$600,000 OR MORE: annually perform a **full audit** conducted by an independent Certified Public Accountant (CPA). Completing the checklist in conjunction with the auditor is recommended.
2. CONGREGATIONS WITH TOTAL OPERATING REVENUES OF LESS THAN \$600,000 BUT MORE THAN \$250,000: annually perform a **full audit or an audit review**. However, an approved **internal audit committee** may be utilized if need be. A full audit should be performed at least every three (3) years.
3. CONGREGATIONS HAVING TOTAL OPERATING REVENUES OF LESS THAN \$250,000: annually perform a **full audit, an audit review, or an internal audit performed by an approved internal audit committee**. It is recommended that a full audit should be performed every three (3) to five (5) years.

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AUDIT SUBMISSIONS

Annual Audits need to be on file in the Diocesan Office by September 1.

1. For Full Audits or Audit Reviews submissions, please ensure you:
 - ✓ Submit your **Auditor Certification Letter** (required)
 - ✓ Includes your financial statements (required): **Balance Sheet** and the **Income/Expense Statement**. It is also recommended to include a **Summary of Restricted Accounts** (if you have one).
 - ✓ Include a copy of completed **Audit Checklist** (if utilized)
2. Audit Committee submissions, please ensure you:
 - ✓ Complete an **Audit Committee Certification Letter** (see Appendix A). This is a required letter stating that steps have been taken to ensure that the financial statements are presented fairly in all material respects and internal control procedures are in effect at the congregation. Findings / deficiencies are noted appropriately. This letter should be made a part of the Vestry meeting minutes.
 - ✓ Attach your financial statements: **Balance Sheet** (or listing of assets and liabilities such as found in Appendix B) and your **Income/Expense Statement**
 - ✓ Include copy of your completed **Audit Checklist** (required)

AUDIT RESOURCES

- ✓ A key resource for all churches to utilize is **The Manual of Business Methods in Church Affairs**. This free, on-line manual identifies requirements and seeks to provide helpful advice on sound, practical internal controls, accounting guidelines and business practices. It can be found on our diocesan website or at: https://episcopalchurch.org/files/full_manual_updated_012815_0.pdf
- ✓ A new resource just released by the Episcopal Church Foundation (ECF) is the **Finance Resource Guide**. This helpful publication serves as a handbook for congregations and vestries, providing financial management practices and principles that are clear and understandable.
- ✓ Our diocesan **Audit Committee Checklist** was developed to assist your audit committee to complete their annual audit and identify areas of improvement. It

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is intended to better assist those participating in the conduct of a financial review that may not have full experience conducting an audit. Some questions may not be applicable to your congregation (e.g. no employees) but most should be regardless of church size.

INTERNAL FINANCIAL CONTROLS

A successful audit is usually a direct result of the financial procedures and controls that are in place, not just ensuring financial statements are orderly. Internal controls are probably the most important activities for an auditor to perform and usually overlooked when it comes to audit committees. Reviewing processes and controls allow churches to better discover deficiencies or identify potential issues. For example, a church may only have one person count the plate, record the contributions, and take the money to the bank. A church may have overlooked or missed a 941 quarterly estimated taxes filing, unintentionally utilized funds that may have been restricted, or a committee may have opened a new checking account in the name of the church without approval.

AUDIT COMMITTEES

An Audit Committee is composed of members from the parish that will perform the review of accounting processes, controls, and financial reports. They should be independent of the decision-making and financial record keeping functions of the congregation. The audit may be completed by an accountant who is competent to perform an audit alone (e.g., a person who has past auditing experience) or it should be performed by two or more members, at least one of whom has financial experience. You may find it preferable to have three or more members, depending on the size, number, and complexity of the accounts to be audited. It is recommended that individuals who were members of the vestry or executive committee during the year being audited not be members of an Audit committee.

AUDIT COMMITTEE CHECKLIST

Our Audit Checklist, in conjunction with our Audit Guidelines document, is intended to help an audit committee or non-accountant who is participating in the conduct of a financial review. The Audit Checklist and comments may also alert an accountant who may not be familiar with the Episcopal Church to certain matters pertaining to Episcopal congregations. Again, the intent of the checklist is to provide a guide to assist you in completing this important activity. The checklist is not all inclusive; an auditor may certainly do more than is required by these procedures. While some questions may not be applicable to your congregation, there may be sections that you wish to explore more in depth. Sections of our checklist include:

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Section A: General Review

Section B: Cash Balances, Investments, & Income

Section C: Cash Disbursements

Section D: Liabilities

Section E: Clergy Discretionary Fund

Section F: Payroll / Employees

Sample questions include:

- ✓ Are vestry minutes for the previous year complete / available?
- ✓ Are monthly or quarterly financial reports prepared and submitted to the Vestry for review?
- ✓ Are your insurance records and property records available?
- ✓ Were any restricted gifts received during the year?
- ✓ Do you have a list of authorized signatories for each account?
- ✓ Are mortgages or other loan payments current?
- ✓ Were 1099's issued to independent contractors who made more than \$600?
- ✓ Does the church use an outside payroll service?