



**2019 AUDIT COMPLETION CHECK LIST TRANSMITTAL**

**The following items are included with this audit:**

- 1) Audit Committee Certificate (on church letterhead) \_\_\_\_\_  
(Example: Page VI-12, Section B)
  
- 2) Audit Committee Findings on Policies & Procedures \_\_\_\_\_  
(on church letterhead)  
Example: Page VI-12, Section C)
  
- 3) Audit Program Checklist (Page VI-6 – VI-11) \_\_\_\_\_
  
- 4) **Financial Statements as of 12/31/2019** \_\_\_\_\_  
This includes a balance sheet and income statement (income & expenses with budget only. Please do not send in copies of your parochial report or other paperwork - only financials.)

\_\_\_\_\_  
Church Name

\_\_\_\_\_  
City

\_\_\_\_\_  
Member of Audit Committee to be contacted if questions

\_\_\_\_\_  
Phone number where we can contact you

\_\_\_\_\_  
Email address

**Please return this sheet with your audit.** Check each item completed and included.  
Contact Susan Hardaway (888-824-5387) if you have questions.

## INSTRUCTIONS FOR AUDIT COMMITTEE TEAM MEMBERS FOR 2019 AUDIT

If your 2019 General Purpose Income (line A of the Parochial Report) is less than \$600,000, you are eligible to do an audit by committee. If income is \$600,000-\$900,000, you need to have a compilation by a CPA under Accounting Standards Codification (ASC) 958 including notes to the financials and an Internal Control questionnaire completed. If your income is \$900,001-\$1,200,000 an External Review by a CPA is required. If income is over \$1,200,000 you need to have an audit by a CPA under ASC 958.

A copy of the Manual of Business Methods in Church Affairs is a must. If you do not have the most current copy, please go to the Diocesan website, click on the "Diocese" tab, click Financial Services, click Manual of Business Methods to download the latest copy. You will find it helpful to look through this manual before you perform the audit.

The National Canons require that all churches be audited annually. The Finance Committee, as adopted by the Executive Board, has set standards that if the General Purpose Income of a parish or mission is less than \$600,000, they may have an audit by committee. The committee must consist of **3 people independent of the financial transactions of the church or mission**, and they must all sign off on the audit. (The other categories for audits must be done by a Certified Public Accountant.)

When The Committee starts the audit, please review with the Treasurer the list of 11 accounting records under **Pre-Audit Documents Required for Review**, item 3 on VI-7, that they should have ready for you.

Using the attached audit package of materials, complete the following steps:

1. Complete the "Audit Program Checklist" general information sheet (Section A, VI-6 - VI-11 ).
2. Read the "Instructions for Completion of Audit Program Checklists." (Section D, VI-12 through VI-21).
3. The Audit Program Checklist needs to be returned with the audit. For questions that do not apply to your situation, merely mark **N/A** and continue on.

Remember that **all accounts** must be audited. This requirement covers not only the operating accounts of the church, but also the restricted, endowment and property funds, and the accounts of any ancillary groups like the Altar Guild.

**Rector's Discretionary Fund** must also be included. In other words, no church money is exempt from the requirement of an audit.

4. You should also include a "Notes" page to list items that need to be discussed with the treasurer.
5. Complete the "Audit Committee Findings on Policies and Procedures" sheet. (See sample document on VI-12, Section C). Put on your letterhead.
6. Complete the "Audit Committee Certificate". (See sample document on VI-12, Section B) on your letterhead.

When finished with the audit, please use the attached checklist to ensure you are including everything that is required. **The audit is due 30 days after completion** and should be submitted by **May 1 (but no later than September 1, 2020)**.

Thank you,  
Susan Hardaway, Financial Officer

*Adopted by the Executive Board on December 3, 2009.*

## CHAPTER VI: AUDIT GUIDELINES FOR CONGREGATIONS

### CHAPTER CONTENTS

<i>Introduction</i> .....	VI-2
<i>Purpose</i> .....	VI-2
<i>Pre-Audit Advice</i> .....	VI-2
<i>Reasons for an Audit</i> .....	VI-2
<i>Approved Auditors</i> .....	VI-2
<i>The Committee Examination</i> .....	VI-3
<i>Scope of the Committee Examination</i> .....	VI-3
<i>Accounts to be Audited</i> .....	VI-3
<i>Objectives of the Audit</i> .....	VI-4
<i>Timing of the Audit</i> .....	VI-4
<i>Contents of the Audit Report</i> .....	VI-4
<i>Filing of the Audit</i> .....	VI-4
<i>Section A. Audit Program Checklist</i> .....	VI-6
<i>Section B. Sample Audit Committee Certificate</i> .....	VI-12
<i>Section C. Sample Audit Committee Findings on Policies and Procedures</i> .....	VI-12
<i>Section D. Instructions for the Audit Program</i> .....	VI-13
<i>General</i> .....	VI-13
<i>Pre-Audit Needs</i> .....	VI-13
<i>Receipts</i> .....	VI-14
<i>Disbursements</i> .....	VI-15
<i>Bank Accounts</i> .....	VI-16
<i>Investments</i> .....	VI-16
<i>Restricted Funds</i> .....	VI-17
<i>Loans</i> .....	VI-18
<i>Property and Equipment</i> .....	VI-18
<i>Payroll Records</i> .....	VI-19
<i>Receivables and Payables</i> .....	VI-19
<i>Insurance</i> .....	VI-20
<i>Discretionary Fund</i> .....	VI-20
<i>Work Papers</i> .....	VI-20
<i>Audit Committee Certificate</i> .....	VI-20
<i>Audit Committee Findings on Policies and Procedures</i> .....	VI-20

## Introduction

1. *Purpose:* These audit guidelines were developed to assist auditors in performing the annual audit of the financial statements of the congregations of the Episcopal Church.
2. *Reasons for an Audit:* Annual audits are required by the Canons of the Episcopal Church for all parishes, missions, and other institutions. The primary purpose of an audit is to assure that financial statements are fairly stated. Any person handling the monies or investments of the church needs an audit to protect the church assets and him/her against suspicion of mishandling those assets. Similarly, rectors, vestries, vicars, bishop's committees, treasurers, and other persons in positions of responsibility may be liable for any losses which would have been discovered by an ordinary audit but were not discovered because they failed to have an audit conducted.

In addition, an announcement to the congregation that a completed audit reveals that all monies and investments are properly accounted for will have a positive impact on stewardship.

3. *Pre-Audit Advice:* When meeting with the auditors, be prepared to discuss your plans and objectives. Auditors are in the position to advise you and serve your interest when they understand the goals you have set and when you can clearly explain what you expect and hope to get from their services.

Keep good records and help your auditor save you money by not using professional time for routine work, such as gathering information.

Keep your auditor informed of changes and new directions in the congregation.

The treasurer and others, such as Vestry members, rectors, and staff, should be available to the auditor to provide any needed information.

A copy of the *Manual of Business Methods in Church Affairs* should be made available to the auditors.

4. *Approved Auditors:* The canons permit the auditing of congregational accounts by "an independent Certified Public Accountant or by such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority." This is an alternative to a full financial statement audit; regulations may vary among dioceses, however.

**Certified Public Accountant:** Very often the complexity and/or size of congregations necessitate an independent examination and reporting on their financial statements.

- 1) Certified Public Accountants offer several levels of service. These include the audit, the compilation, and the review. Refer to the Glossary of this manual for definition of these terms. Neither a review nor a compilation is acceptable in place of an audit of a parish, mission, or other institution of the church.
- 2) Certified Public Accountants engaged in public accounting are available to all who wish to engage them for independent accounting skills. These skills consist primarily of the design and installation of financial systems, audits, investigations and reports

based on audits, advice on management and financial policies, and tax return preparation.

- 3) Certified Public Accountants have met the statutory requirements of a state or other political subdivision of the United States as to age, education, residence, moral character, and expertise, and have passed a uniform examination administered by the appropriate regulatory authority.
- 4) Certified Public Accountants are permitted to advertise their services. This should help you in your search. Generally, when people do not know an accountant in the community, they will ask friends to recommend someone. Businesspersons, especially those in the not-for-profit field, can be helpful in finding an accountant with expertise in the not-for-profit sector. Lawyers and bankers can be of assistance as well.
- 5) Fees are based on time charges. Moreover, fees vary with the level of experience of those required to perform the work. The prevailing cost of conducting a practice in the community will affect professional audit fees. Fees also vary based upon the time of year the audit work is performed.

5. *The Committee Examination:* While the Canons permit an audit by committee where approved by a diocesan authority, we prefer audits completed by CPAs or LPAs. To accommodate parishes with limited income, some dioceses have authorized Alternative Audit Procedures. These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Examination. The Auditor's Opinion Letter of an Audit Committee will be termed an Audit Committee Certificate. The Auditor's Comments on Internal Control will be termed Audit Committee Findings on Policies and Procedures.

Audit committee members should be independent of the decision making and financial record keeping functions of the congregation. The members of the audit committee should include at least one financial expert

An audit committee may consist of one or more individuals. A typical audit committee has three members. The actual number of members should be determined by the size and scope of the audit.

6. *Scope of the Committee Examination:* The scope of the audit shall include:
  - a. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
  - b. Verification (or preparation) of financial statements in the form approved for the Episcopal Church as set forth in this manual. Refer to Chapter III (Bookkeeping).
  - c. A review of management control practices using the Internal Control Questionnaire found in Chapter II (Internal Controls).
7. *Statements to be Audited:* All accounts must be audited. The audit requirement covers not only the operating accounts of the organization, but also all of its restricted, endowment, and property funds, and the accounts, if any, of its affiliated organizations. No church money is exempt from the requirement of an audit. If a separate auditor has audited an account of a separate treasurer, the report should be included in the consolidated financial statements.

8. *Objectives of the Audit:* The major objectives of an audit of the financial statements of a congregation are to ascertain the following:
  - a. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.
  - b. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
  - c. That the various transactions during the year are recorded in the proper amounts and in the proper accounts and that there were no “off the books” accounts or activity;
  - d. That the assets, liabilities, income and expenses, which should be in the financial records, are so shown in the proper amounts and in the proper accounts;
  - e. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
  - f. That the financial statements for the year were prepared from the financial records and present fairly the financial position and changes in net assets and cash flows of the congregation.
  
9. *Timing of the Audit:* The Canons call for a church fiscal (i.e., financial) year ending on December 31 of any given year. The engagement of the auditor should be done prior to the end of the period being examined. This timing allows the auditor to include certain audit procedures that can only be performed at year-end.
  
10. *Contents of the Audit Report:* The auditor is responsible for submitting an audit report to the Vestry of the church. The Audit Report shall consist of:
  - a. The Report of the Independent Auditor (or Audit Committee Certificate in the case of a Committee Examination);
  - b. The Statement of Financial Position;
  - c. The Statement of Activities;
  - d. The Statement of Cash Flows;
  - e. Footnotes to the Financial Statements;
  - f. Completed Audit Program Checklist (more likely in a Committee Examination);
  - g. The Audit Committee Findings on Policies and Procedures; and
  - h. A corrected parochial report as a result of audit adjustments, if applicable.
  
11. *Filing of the Audit:*
  - a. Prior to actual delivery of the audit report, the Vestry should issue a letter to the auditor stating that all records have been made available for audit and there are no funds omitted.
  - b. Upon completion, the Audit Committee shall present the audit report to the Treasurer, Rector, and Wardens.
  - c. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate. These items will be discussed with the Treasurer or other responsible persons and within 30 days their written response, attached to the audit report, is presented to the Vestry.

- d. The Vestry receives the audit report upon completion.
- e. A copy of the audit report should be filed with the Bishop or Ecclesiastical Authority not later than 30 days following its completion and never later than September 1 of each year, covering the financial reports of the previous calendar year. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.
- f. If, at any time during the audit, the records suggest that something is seriously wrong, the matter should be brought immediately to the attention of someone of superior authority, including the Vestry and the appropriate diocesan authority.

*Please return pages 6-11 with the rest of your audit.*

**Section A. Audit Program Checklist**

Please copy this section for use of the Audit Committee. Instructions for the Audit Program may be found in Section D.

1. *General Information:*

Congregation	
Street Address	
Mailing Address	
City, State, Zip	
Rector/Vicar/ Priest in Charge	
Senior Warden	
Junior Warden	
Treasurer	
Other	
Financial Records Maintained by	
Location of Financial Records	
Location of Audit	
Commencing	
Audit Committee	

2. *Pre-Audit Meeting:* Date \_\_\_\_\_

Attended by:

Name	Title

- a. Objectives and scope of audit discussed?      Yes  No  N/A
- b. Time Schedule arranged?      Yes  No  N/A
- c. Reimbursement for out of pocket expenses discussed?      Yes  No  N/A
- d. Availability of workspace established?      Yes  No  N/A
- e. Availability of required records established?      Yes  No  N/A



- f. Availability of *Manual of Business Methods in Church Affairs* determined? Yes  No  N/A
- g. Assistance of staff requirements established? Yes  No  N/A
- h. Engagement letter setting forth agreements between Vestry and Audit Committee discussed? Yes  No  N/A

3. *Pre-Audit Documents Required for Review:*

- a. Original signed Vestry minutes Yes  No  N/A
- b. Minutes of any group authorized to disburse monies Yes  No  N/A
- c. Annual financial report to parish Yes  No  N/A
- d. Treasurer's interim reports Yes  No  N/A
- e. Annual Parochial Report Yes  No  N/A
- f. Names of those authorized for check signing, fund withdrawal or transfer, and disbursing approval Yes  No  N/A
- g. List of securities held Yes  No  N/A
- h. Arrangements made for receipt of unopened bank statement(s) or mailing of request for confirmation of bank balance(s), loan balance(s) and investments Yes  No  N/A
- i. Copy of previous year's audit and internal control letter Yes  No  N/A
- j. Organizational Chart Yes  No  N/A
- k. Chart of Accounts Yes  No  N/A
- l. Budget Yes  No  N/A
- m. General ledger Yes  No  N/A
- n. Cash receipts journal Yes  No  N/A
- o. Cash disbursements journal Yes  No  N/A
- p. Bank statements for audited year, plus last statement for previous year and first for current year Yes  No  N/A
- q. Paid checks and deposit slips Yes  No  N/A
- r. Payroll records with Forms I-9, W-2, W-3, W-4, and State and Federal withholding records Yes  No  N/A
- s. Savings account passbooks Yes  No  N/A
- t. Other investment records Yes  No  N/A

4. *Cash*

- a. Is the petty cash fund imprest? Yes  No  N/A
- b. Is the checking account(s) reconciled to the accounting records and checkbook, using unopened year-end bank statement(s) or an independently received bank confirmation? Yes  No  N/A

- |    |  |                              |                             |                              |
|----|--|------------------------------|-----------------------------|------------------------------|
| c. | Have paid checks been examined for authorized signatures?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| d. | Have paid checks been examined for endorsements?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| e. | Have the checks been compared to the disbursements journal for payees and amounts?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| f. | Have all voided checks been accounted for?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| g. | Has the subsequent January statement been reviewed?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| h. | Are disbursements supported by vouchers approved by authorized party other than check signer?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| i. | Are two signatures required on checks for \$500 or more?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| j. | Is the bank notified immediately of all changes to authorized check signers?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| k. | Are cash journal totals tested for accuracy?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| l. | Are receipt records compared with bank deposits for full year?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| m. | Are all transfers between accounts traced?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| n. | Does an authorized party other than a check-signer approve journal entries, and are they adequately documented?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| o. | Are all checking accounts (including Discretionary funds and Episcopal Church Women) in the name of the congregation using its Federal Employer Identification Number? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

5. *Pledges and Other Gifts:*

- |    |   |                              |                             |                              |
|----|---|------------------------------|-----------------------------|------------------------------|
| a. | Do the records of total receipts per individual pledge agree with the amounts recorded and reported in the cash receipts journal?                             | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| b. | Have the postings and arithmetic on individual pledge records been tested?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| c. | Number of individual pledge records sampled:  | _____                        |                             |                              |
| d. | Is there budgeting of contributions that can be reasonably estimated?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| e. | Are contribution budgets periodically compared to actual, and are significant differences investigated?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| f. | Are records kept and periodically reviewed of gifts, such as bequests, which are contingent on future events?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| g. | Are future bequest and gift files, such as proceeds from life insurance policies or sale of property willed to a congregation, maintained on a current basis? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

- h. Are files kept on life income, endowment, and annuity gifts, including information on the nature of the principal, investment of the principal, or use of the principal income, as well as correspondence with donors or beneficiaries, and copies of pertinent documents? Yes  No  N/A
- i. Are individuals designated to be responsible for assuring compliance with the terms and conditions of all grants, restricted contributions, endowments, etc. received? Yes  No  N/A

6. *Securities:*

- a. Is the securities list verified against subsidiary ledger accounts, validating serial numbers against purchase records of gifts? Yes  No  N/A
- b. Is the name verified in which securities are registered? Yes  No  N/A
- c. In the case of coupon bonds, are unmatured coupons intact? Yes  No  N/A
- d. Is the market value of securities established at the date of the examination? Yes  No  N/A
- e. Are securities examined or confirmed if held by depository or transfer agent? Yes  No  N/A
- f. Are brokers reports examined for securities bought or sold through broker? Yes  No  N/A
- g. Were security purchases or sales authorized by appropriate Vestry action and recorded in the minutes? Yes  No  N/A
- h. Have cash receipts records of dividends and interest been compared with record of securities held? Yes  No  N/A

7. *Trust and Endowment funds:*

- a. Has a list of trust and endowment funds been obtained, including their terms and locations of the investments? Yes  No  N/A
- b. Has there been an examination of the deed of trust or agency agreement for each trust and endowment fund? Yes  No  N/A
- c. Have the agency accounting records been checked to determine whether or not the terms of the trust or endowment funds are being properly followed? Yes  No  N/A

8. *Property and Equipment:*

- |   |                              |                             |                              |
|---|------------------------------|-----------------------------|------------------------------|
| a. Is there a list of fixed assets, showing date of purchase and cost?                              | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| b. Is an inventory identification procedure in effect?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| c. Using preceding information, has a physical examination of assets been made, to extent possible? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| d. Have any deeds and titles required been examined as evidence of ownership?                       | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| e. Are land and buildings carried on financial statements?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| f. Are any liens outstanding against property and equipment?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

9. *Liabilities: Payroll Taxes*

- |  |                              |                             |                              |
|--|------------------------------|-----------------------------|------------------------------|
| a. Have total wages been reconciled with quarterly Federal Form 941, Form W-2, and Form W-3 and other required forms?                    | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| b. Have total withholding taxes been reconciled with Form 941 and other required forms?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| c. Has it been determined that all Federal, State and local withholding taxes were remitted on a timely basis to avoid hidden penalties? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| d. Is a current, signed Form W-4, I-9 or other required forms on hand for each employee?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| e. Has a housing resolution been included in the Vestry minutes for each cleric employed by the congregation?                            | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

10. *Other Indebtedness:*

- |  |                              |                             |                              |
|--|------------------------------|-----------------------------|------------------------------|
| a. Have appropriate church officials properly authorized all indebtedness?   | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| b. Have unpaid balances per church records been reconciled with balances as reported by creditor?  | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| c. Is a detailed schedule of all loans prepared, including name of creditor, date of origin, original amount of debt, interest rate payment schedule, monthly payment, unpaid balance, loan purpose, and authorizing body? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |

11. *Payables:*

- |  |                              |                             |                              |
|--|------------------------------|-----------------------------|------------------------------|
| a. Have payments made subsequent to the end of the year been investigated for items which should have been included as an expense and account payable in the audit year? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
|--|------------------------------|-----------------------------|------------------------------|

- b. Have inquiries been made as to any unpaid items from the audit year that should have been included as a payable? Yes  No  N/A
- c. Have inquiries been made as to any paid items from the audit year that should not have been expensed but recorded as a prepaid item? Yes  No  N/A

12. *Other:*

- a. Has insurance coverage been reviewed, and has a copy of policies been obtained and a schedule prepared detailing name of carrier, description of coverage, period covered, premium amount, and date of premium payment? Yes  No  N/A
- b. Has there been inquiry as to whether there are any contingencies or commitments facing the church, e.g., legal action with prospects of potential loss? Yes  No  N/A
- c. Is there a policy covering the procedure for write-offs or receivables or loans, approval required, provision for reserves? Yes  No  N/A
- d. Is there a process in place for ongoing review of the budget? Yes  No  N/A

### Section B. Sample Audit Committee Certificate

Date \_\_\_\_\_

To the Rector, Wardens and Vestry of (Church Name; Church Address; City and Zip)

Subject: (Audit Year) Audit of (Church Name)

We have inspected the statement of financial position of (*Name of Church*) as of December 31, (*Audit Year*), and the related statement of activities and cash flows for the year then ended. Our inspection was made in accordance with the audit guidelines of the *Manual of Business Methods in Church Affairs*, and the financial statements are prepared on a (cash, modified accrual, or accrual – *accrual being the preferred method*) basis in accordance with principles adopted by the Episcopal Church and approved by its General Convention except as noted. (*Note exceptions here, if any: e.g., Was depreciation recognized?*)

We have taken steps to see that the accompanying financial statements present fairly, in all material respects, except as noted above, the financial position of the Congregation at December 31, (*Audit Year*); and that the changes in its net assets and its cash flows for the year then ended are in accordance with the principles authorized by General Convention of the Episcopal Church on a basis consistent with that of the preceding year.

Our inspection and certificate are not meant to be construed as an audit and opinion rendered by a Certified Public Accountant.

Sincerely, Members of the Audit Committee (*List names and phone numbers of Audit Committee Members and have each member sign the Audit Committee Certificate*)

### Section C. Sample Audit Committee Findings on Policies and Procedures

Date \_\_\_\_\_

To the Rector, Wardens and Vestry of (*Church Name*)

Subject: (*Audit Year*) Audit of (*Church Name*)

During the course of the above inspection, the following items pertaining to internal control and other operation matters were noted. The first group includes areas of management control where prior year auditor recommendations have been implemented; the second group includes comments and recommendations of current year auditors.

Areas where prior year auditors recommendations have been implemented:

Comments and recommendations of current year auditors:

Members of the Audit Committee (*List names and addresses of Audit Committee Members and have each member sign the Audit Committee Certificate*)

## Section D. Instructions for the Audit Program

1. *General:* The following suggested procedures are merely acts that can be used to determine the appropriateness of the financial statements presented. An audit is a series of procedures to test, on a predetermined selective basis, the various transactions occurring in the year under examination. It is unrealistic to examine every transaction for the year. Therefore, certain tests are necessary to verify the reasonableness of all transactions.
  
2. *Pre-Audit Needs:*
  - a. Obtain a preliminary understanding of the accounting systems (both manual and computer) that generate significant financial statement items and of related principal internal accounting controls.
  - b. Obtain copies of the minutes of the Vestry meetings for the period under examination. This should include the minutes of any committee authorized to receive and disburse monies. Read the minutes regarding the election of officers, compensation of personnel, bonding of the treasurer, budget approvals, contracts entered into, items purchased, monies borrowed, purchase and sale of securities, resolution confirming clergy housing allowance for tax purposes, etc. This should be done before the actual examination of any accounting records. You may need to see the minutes of the previous year if they contain authorizations for expenditures in the year being audited.
  - c. Obtain a copy of the previous audit complete with the Committee Examination Findings on Policies and Procedures. This provides a firm set of starting balances which may differ from the Treasurer's reports. It will also offer the chance to check on the progress of corrections of management control deficiencies, an important part of the teaching process.
  - d. Obtain a copy of the annual financial statements as prepared and presented by the treasurer.
  - e. Review the procedures being used to account for church monies. Identify by name and position the individuals with responsibility for financial operations and decisions and verify with them that all the funds of the congregation are included in the statements.
  - f. Identify all bank accounts and authorized check and withdrawal signers, including those under separate treasurers.
  - g. Request that all accounting records of all funds be presented together including:
    - 1) Chart of Accounts and Organization Chart
    - 2) General Ledger
    - 3) Cash Receipts Journals
    - 4) Cash Disbursements Journals
    - 5) Bank Statements including canceled checks
    - 6) Paid Invoices
    - 7) Individual payroll records including Forms W-4 and I-9
    - 8) Passbooks and evidence of other investments
    - 9) Pledge Records by individual and total

- h. Meet with members of the Finance Committee to discuss the annual financial statements. Inquire about the occurrence during the year of any significant matters of which the auditor should be informed. Also, inquire into significant variances noted on the financial statements.
- i. Request a location in which to perform the audit. The audit can be more thoroughly and efficiently performed if it is conducted where the records are located.

3. *Receipts:*

- a. Plate offerings: Cash receipts journal entries should be traced to weekly cash receipts records on a test basis.

- b. Pledge receipts:

Pledge receipts should be verified by tracing cash receipt entries to individual pledge records on a test basis. A minimum of 10% of postings should be traced. Results will indicate if a broader sampling is necessary.

Random selection of individual pledge records should be tested for accurate total and balance. A minimum of ten percent should include the same individuals as above.

If the auditor is engaged before year end and if the church sends statements to the pledgors, the auditor can save time and effort by supervising the mailing of the year end statements. The auditor can then use this mailing to obtain direct confirmation.

The auditors should always review the pledge receipts of the congregation personnel involved in money transactions.

The decision regarding the size of the representative sample of postings and pledge records for examination depends on the dollars involved and the sophistication of the parish records.

- c. Contributions from congregation organizations: Receipts must be listed separately for each organization and amounts entered in the cash receipts journal, traced to the weekly cash receipts records. These listed amounts shall be confirmed with their sources.
- d. Contributions from the Diocese: Receipts must be listed and amounts entered in the cash receipts journal, traced to weekly cash receipts records.
- e. Investment and endowment income: Income from securities should be verified by an examination of the brokerage house statement. Income from investment accounts should be verified by an examination of the statements provided or confirmed by the trustee or agency. Income from savings bank deposits should be confirmed by the bank.
- f. Restricted income: Income received for special purposes should be noted by the auditor who should trace the cash receipts journal entries to the weekly cash receipts records. The auditor should also be satisfied that the income was used for the purpose for which the gift was made.