

DIOCESAN AUDIT GUIDELINES

Each parish within the Diocese of Washington is responsible for submitting audited financial statements to the Bishop of Washington. These statements must be received by September 1st of the year following the calendar year being reported. To ensure financial statements are fairly stated, canon law requires an annual audit be completed by each parish. For direction in completing the annual audit, in January of 2003 the Diocesan Council adopted the audit guidelines established by the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA (DFMS).

These guidelines are included as Chapter VI in the Manual of Business Methods in Church Affairs which is published by the Domestic and Foreign Missionary Society of the Protestant Episcopal Church in the USA. In addition to the audit guidelines, the manual includes a great wealth of useful information aimed at assisting congregations in effectively running the business of the church, including information relating to tax, financial management, insurance, and other issues. This manual can be purchased directly from the DFMS through Episcopal Parish Services at (800) 903-5544 or online at www.episcopalparishservices.org

The audit guidelines allow the following three types of financial audit be conducted by a parish:

1. Audit by independent CPA (Certified Public Accountant)
2. Audit by independent PA (Public Accountant)
3. Audit by Committee chosen by parish

These guidelines were created for parishes that choose to do an audit by committee instead of engaging a CPA or PA to perform the audit. The guidelines outline the steps and processes necessary to adequately review the financial statements and internal accounting controls of a parish.

Two changes, which were recommended by the Diocesan Finance Committee, are incorporated into the audit guidelines approved by Council. Both of these changes affect bullet 5 on page VI-3 of the manual, discussing the committee audit. First, the final sentence in the second paragraph of bullet 5, dealing with reimbursement for out-of-pocket expenses, was deleted. Second, the following sentence was added as the second sentence to the third paragraph under bullet 5: "A committee member may be someone, other than a CPA, who is engaged by the congregation to perform the committee audit, as long as the Committee Audit Guidelines and format are followed."

The text of the Introduction portion of the guidelines is below (including the two diocesan changes listed above and appropriately marked, that were adopted by our Council). For the other sections (Audit Program Checklist, Sample Audit Committee Certificate, Instructions for the Audit Program), please refer to the *Manual of Business Methods in Church Affairs*.

1. **Purpose:** These audit guidelines were developed to assist auditors in performing the annual audit of the books of account 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 han-

dling 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," by "an independent licensed public accountant," or by "such committee as shall be authorized by the Finance Committee, Department of Finance, or other appropriate diocesan authority."

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

- i. 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.

- ii. 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.

- iii. 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

- iv. 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.

- v. 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.
- b. *Independent Licensed Public Accountants*: While the CPAs and Pas are both licensed to perform the same public accounting services, they prepare differently to become licensed. A Public Accountant has a license based solely upon public accounting experience.
5. The Committee Audit: These Audit Guidelines were specially prepared for audit by committees. The Audit made by an audit committee will be termed a Committee Audit. 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 have sufficient financial skills and experience to conduct a competent audit. It might be appropriate to offer reimbursement to the audit committee for out-of-pocket expenses.
- An audit committee may consist of one or more individuals. A committee member may be someone, other than a CPA, who is engaged by the congregation to perform the committee audit, as long as the Committee Audit Guidelines and format are followed. The actual number of members should be determined by the size and scope of the audit.
6. Scope of the Committee Audit: The scope of the audit shall include:
- Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
 - 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).
 - A review of management control practices using the Internal Control Questionnaire found in Chapter II (Internal Controls).
7. Accounts to be Audited: All accounts must be audited. The audit requirement covers not only the operating accounts of the organization, but also all its restricted, endowment, and property funds, and the accounts, if any, of its 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 a congregation are to ascertain the following:
- That the various transactions during the year are proper and are documented appropriately (*i.e.*, authorized, complete and accurate);
 - That the various transactions during the year are recorded in the proper amounts and in the proper accounts;
 - 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;

- d. That, to the extent feasible, adequate internal control procedures were and continue to be in effect; and
 - e. 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 Audit Committee Certificate;
 - b. The Statement of Financial Position;
 - c. The Statement of Activities;
 - d. The Statement of Cash Flows;
 - e. Completed Audit Program Checklist;
 - f. The Audit Committee Findings on Policies and Procedures; and
 - g. 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 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, as well as the appropriate diocesan authority.