

The Episcopal Diocese of Western Michigan Guidance for Parish Audit Committees

Overview

Annual audits are required for all parishes, missions and other institutions by the Diocese of Western Michigan (Canon 28 section 28.01). These audits are required by the Canons of the Episcopal Church [Title I Canon 7 Section 1]. This set of diocesan guidelines is written in accordance with the *Manual of Business Methods in Church Affairs* as authorized by the General Convention of the Episcopal Church.

Audit Supervision Committee. Financial and Operational Audit Supervision Committee of the Diocese will monitor the process of submission and provide guidance to congregations when needed and will stand ready to assist in assuring that the audit is conducted properly.

Approved Auditors: Congregations have several choices for conducting an audit. They may engage an independent certified (CPA) or licensed public accountant, or they may appoint a committee typically of at least three persons from within the congregation (one person is acceptable under special circumstances), or arrange to have their audit performed by an audit committee from another congregation.

1. 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.
2. 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.
3. Neither a review nor compilation by a CPA is an acceptable substitute for an Audit.

Timing of the Audit: The Canons call for a church fiscal year to end on December 31. The Vestry and Audit (Review) Committee must allow sufficient time for completion, review, and vestry acceptance of the audit report for transmittal to the diocese prior to September 1 following the year being audited.

Scope of the Committee Examination: The scope of the audit shall include:

1. Sufficient tests of transactions to assure compliance with these guidelines and adequate control of the assets of each congregation.
2. Verification (or preparation) of financial statements in the form approved for the Episcopal Church.
3. A review of management control practices using
 - a. The Internal Control Evaluation Checklist
 - i. Note – If a CPA does the audit, a review of this checklist is required

Objectives of the Audit: The major objectives of an audit of the financial statements is for a Congregation to ascertain the following:

1. 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.
2. That the various transactions during the year are proper and are documented appropriately (i.e., authorized, appropriate church purposes, complete and accurate);
3. 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
 - Transactions must be documented appropriately
 - Authorized, appropriate purpose and complete
4. 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;
5. That, to the extent feasible, adequate internal control procedures were and continue to be in effect.

Accounts to be Audited: **All accounts must be audited.** This requirement covers not only the operating accounts of the congregation but also all of its restricted, endowment, property, and cemetery funds and the accounts, if any, of all parish organizations. No church money, including the parish discretionary fund, if there is one, is exempt from the requirements.

Contents of the Audit Report: The Audit Committee is responsible for submitting an audit report to the Vestry of the church.

1. The Audit Report shall consist of:
 - a. The Audit Committee Certificate
 - i. Or report from an independent CPA
 - b. The Statement of Financial Position (Balance Sheet)
 - c. The Statement of Activities (Income Statement) - Including budget versus actual
 - d. The Statement of Cash Flows (if used)
 - e. Footnotes to the Financial Statements (if applicable)
 - f. Completed Internal Control Evaluation Checklist and Financial test checklist
 - g. The Audit Committee Findings on Policies and Procedures; and

Filing of the Audit:

1. Upon completion, the Audit Committee shall present a complete copy of the entire report to the Treasurer, Rector, Wardens. Any findings and recommendations should be presented in the Audit Committee Findings on Policies and Procedures, not in the Audit Committee Certificate.
2. These items will be discussed with the Treasurer or other responsible persons and a plan for resolution presented to the Vestry.

3. 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. (Submit by mail, or email to bookkeeper@edwm.org)
 - a. The following is to be included in this report and sent to the Diocesan Finance Office:
 - b. The Audit Committee Certificate;
 - i. Or report from an independent CPA
 - c. The Statement of Financial Position; (Balance Sheet)
 - d. The Statement of Activities; (Income Statement), including budget versus actual
 - e. The Statement of Cash Flows (if used)
 - f. Footnotes to the Financial Statements (if applicable)
 - g. Completed Internal Control Evaluation Checklist and Financial Test Checklist
 - h. The Audit Committee Findings on Policies and Procedures
4. The minutes of the Vestry will officially record the receipt, acceptance, and subsequent filing of the audit report with the Ecclesiastical Authority.
5. If at any time during the Audit the records suggest that something is seriously wrong, the matter should be immediately brought to the attention of the Rector, Vestry, and the Bishop or Ecclesiastical Authority

Financial Review Prep List

The following items should be available prior to scheduling a review. Unless otherwise specified the information/documents should be from the year being reviewed:

- Checkbooks
- All Bank and investment brokerage statements for the current year (to include the statement from December of the review year and for January of the current year)
- Bank reconciliations for 12/31 of the review year and 12/31 of the immediately previous year
- Savings Account books
- Financial Receipts and Disbursements
- Paid bills file
- Copy of final Treasurer's report for the year being reviewed
- 1099's, W-2's, and other tax forms filed
 - Federal and State payment records
- Vestry Minutes
- Parochial Report for the review year
- Inventory of Property
- List of assets purchased
- List of organizations that have separate checking and/or savings accounts and related bank statements
 - Copies of their minutes for the review year
- List of balances on notes and unpaid bills at the end of the previous year. List of balances on notes at beginning of review year
- Weekly counters tallies
- Budget for review year and the previous year
- Copy of Annual Report
- Discretionary Fund (reports, checkbook, paid bills, bank statements) and any other accounts that ANY organization in the church has.
- Proof of Vestry approval of Clergy Housing Allowance
- Record of pledges and payments (annual giving statements)
- List of persons authorized to handle financial accounts
 - List of authorized check signers
- Copy of most current prior Audit report
- Credit card statements
- Investment policy
- Endowment policy - Include Trust documents

Financial and Operational Audit Supervision Committee

The purpose of the Audit Oversight Committee is to assist the parishes of the Diocese in managing the process of completing canonically required yearly audits and provide the Council oversight of yearly progress.

The Committee shall:

- Maintain the *Guidance For Parish Audit Committees* of The Diocese Of Western Michigan
- Assure that the audits are conducted properly and in a timely manner.
 - Advise the Diocesan Council and Bishop if any Parishes are not in compliance with the *Policy for Annual Audit of Parishes*
- Provide support and assistance to parishes as needed
 - Each region shall have its own team to provide support
- Review, in co-operation with the Bishop's Assistant for Finance and Benefits, the submissions
 - Each region will have its own review team